

**D. S. GANGULY**

**PUBLIC CORPORATIONS  
IN A  
NATIONAL ECONOMY**









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**A NATIONAL ECONOMY**  
*(With Special Reference to India)*

**By**  
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*(Gold Medallist)*

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## Foreword

As economic development in India is leading to a considerable extension of the public sector, interest in the most appropriate form of organisation of the business units in that sector has naturally increased among the students of economics. The Government of India is experimenting with a number of forms of organisation including what one may now regard as the classical type, the public corporations. A number of such corporations have been set up in different parts of the country, and for different purposes, and Dr. Ganguly has made an attempt to evaluate the working of such organisations, drawing heavily not only on the experience gained in this country but also on the results achieved in a number of other countries. A glance at the table of contents will show that his aim has been rather high as he has endeavoured to cover almost all aspects of the working of the public corporations in India, though of course with obvious differences in emphasis. All along, he has been fair to both sides on a particular question, and his comments and opinions are judicious and well-balanced. Significant stresses and strains appeared in the working of these corporations in India, as they did in other countries, and these have been thoroughly reviewed by Dr. Ganguly, and the recommendations that he has made in different parts of his book for improving the organisation and functioning of these corporations are quite sensible and practical. On the whole, this is a welcome addition to the growing literature on public corporations.

California

S. N. Sen



## PREFACE

This treatise is based on a thesis that qualified for the degree of Doctor of Philosophy of the Calcutta University in 1961. Public Sector economy is just making its headway in India, and experimentations in many ways are going on round the issue. Admittedly, there is an element of risk in dealing with such subject in the field of Applied Economics in a developing economy, as every policy envisaged or implemented threatens the work to be out-dated. In fact, during the time-lag of one year between the submission of the thesis and its admittance to the Degree, many a new and modified policy has been laid down by the Government, especially following the recommendations of the Krishna Menon Committee on State undertakings. This has, of course, necessitated a good deal of amendments to my original mode of discussion for fitting the issues to the most up-to-date developments in the realm of the public sector.

The scope of this work is confined to an analysis of the principles and the operations of Public Corporations set up by statutes, with special reference to India. The discussion has been limited to the national level in order to keep the subject within manageable limits. The institution of Public Corporation is of recent origin in India and has been largely drawing lessons from the experience of the developed countries where this form of organisation has already gained ground.

Public Corporations in India primarily follow the principles adopted in the United Kingdom. But unlike Britain, India has not, however, introduced the form of public corporation in the industrial and commercial fields. The Public Sector in India, in fact, covers a wide field, ranging from industrial and commercial enterprises to public utilities and social services, under different forms of organisation. But whatever may be the form of organisation, problems are mostly common in all public undertakings. Admittedly, in a subject matter like this, the discussion cannot be strictly confined to one particular form of organisation and the principles and practice followed in other forms have, of necessity, to be imported for the sake of clarification and emphasis as well as indicating pitfalls, and suggesting improvements. Hence, in discussing the ideas about public corporation,

reference has often been made to other forms of organisation, especially the company-type which is now dominant in the public industrial undertakings in India.

The work does not, however, aim at garnering or dissertating about the working of the public undertakings of the country but attempts to show how far the principles, followed in the developed countries, especially the U.S.A., the U.K. and France, have been applied to the Indian cases, or how far their application would be advisable and profitable towards the efficient conduct of Public Corporations in India, in the background of the peculiarities of an under-developed economy. Facts and illustrations have been cited either to establish the ideas already evolved or for a critical study towards improvements. Indeed, it is too early to measure the success of this new innovation of economic organisation in India and to have a confirmed opinion about it in either way. But in the light of experience and achievements of some of the Public Corporations in this country as well as the measure of success and attainments of similar institutions in other countries, prediction about the supremacy and potentialities of this form of economic organisation in India over other forms would not, perhaps, be an over-optimistic expectation.

This subject struck me when I was a Lecturer at Goenka College of Commerce and Business Administration, (Government of West Bengal), Calcutta, and my first article entitled, "The Principles of Public Corporation" was published in the College Magazine in 1954. For some time thereafter my other preoccupation did not allow me time and opportunity to proceed further with the study. But the rapid pace of development of the public sector economy in the country in recent times created in me anew an irresistible urge, which was reinforced by the study of Mr. A. H. Hanson's illuminating work *Public Enterprise and Economic Development* (1959), to take up a systematic study of the Indian Public Corporations on a comparative level of foreign experience, under the able guidance of Prof. S. N. Sen, Ph. D. (Lond), Department of Economics, Calcutta University, to whom any expression of gratitude would be totally inadequate as I



could never have been able to complete the thesis without his inspiring and valued guidance.

In India, a research worker in a new field of Applied Economics like this, has necessarily to encounter staggering difficulties mainly for two reasons, firstly, due to paucity of published materials providing food for research because of newness of the organisation, and secondly, for non-availability of authentic information and data from direct sources for confidential and other reasons. That being so, one is left with no other alternative than to fall back upon whatever scanty and improvised materials and desultory information that may be available from sources such as, official reports of Government, Parliamentary Debates, annual reports of the Corporations, stray Articles in different Journals and Periodicals, reports and papers of Seminars on this subject, etc.

Nevertheless, I must confess that I have not been refused access to information from direct sources, and I feel it my duty to express my gratitude to the authorities of the different public corporations in India for their kind replies to my queries on the working of the Corporations and sending me their Annual Reports and other publications. In this context, however, I cannot conceal my feeling that the Industrial Finance Corporation has showed greater boldness in furnishing details about the Institution than the other Corporations, which have been found cautious in giving out details and disseminating information appropriate for a research study.

In making amendments to my original thesis, I respectfully acknowledge the great help and lessons I have drawn from the recent superb publication of Prof. W. A. Robson, *Nationalised Industry and Public Ownership* (1960), and also Mr. A. H. Hanson's latest thought-provoking work, *Parliament and Public Ownership* (1961). I have endeavoured to make my work a comprehensive study on the subject, but the measure of my success will undoubtedly depend upon the extent of reception accorded to it by the interested section of the public.

I am especially indebted to the staff of the National Library, Calcutta for their ungrudging and painstaking help in making me available the books and official publications relating to the

subject and extend my thanks to them. I am also thankful to the Damodar Valley Corporation authorities for the favour of their allowing me to use their Library, which privilege has immensely helped me in my study.

I acknowledge my debt to Shri Nalini Ranjan Ghosh M.A., LL.B., M.P., who has graciously supplied me with the latest Parliamentary Papers and Official Publications which have enabled me to make the work informative and up-to-date.

I am particularly grateful to my departmental superior, Shri A. K. Bhowmik, M.A., I.R.S., Assistant Commissioner of Income-tax, and also to my colleague Shri B. N. Gain, Income-tax Officer, for generously giving much of their valuable time in minutely going through the final manuscript and suggesting unmistakable lines of improvement towards finally shaping the work suitable for putting into print.

I feel it also my duty to extend my thanks to many friends and colleagues who have encouraged me in my endeavour and pursuit of the matter. I desire to make particular mention of Prof. G. Sain, Bangabashi College, Calcutta ; Shri P. C. Baksi, Shri A. Bagchi, Shri A. K. Sen and Shri M. C. Chanda, Income-tax Officers ; Shri A. T. Paul, Chatered Accountant ; Shri B. N. Majumdar of Posts & Telegraph Dept. ; Shri S. M. De of Calcutta University and Shri N. K. Sircar of P. E. Davis & Co., Calcutta, whose constant encouragement kept my desire for research study ever aflame.

Finally and above all, my highest reverence goes to my elder cousin Shri D. C. Banerjee M.A., ex-Senior Teacher of Duff High School, Hooghly, whose affectionate blessings and wise counsels have ever inspired me in my academic pursuits and to whom I owe everything of my life.

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## CHAPTER 1

### *GROWTH OF PUBLIC CORPORATIONS*

The *raison d'être* of public enterprises in India lies in the economic objectives of the country, and the growth of public enterprises is a matter of necessity for an even development of her economy in which both the public and the private enterprises would play their important rôles. The political climate of a country is a decisive factor about the place to be occupied by the public sector in the developmental process of the country. But India has no doctrinaire socialism, and no analogy can be drawn in the conception of her public sector with either the Soviet process or the West European countries' as well as Great Britain's nationalisation policies. In India, public sector is but an important limb of the economic body of the country and not the body itself as in the Soviet system ; neither has the public sector tended to develop here resulting from the political ideology of the Party in power as in Great Britain.

Public enterprise in India is an interesting study as in this country public enterprise has emerged without either displacing private enterprise or shutting out private enterprise in the same field of economy as in the West. The Industrial Policy Resolution, 1956 emphasises the importance of the private sector as an effective partner in the rôle of economic development, and assures it a fair treatment in these words—"when there exist in the same industry both privately and non-privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them". The co-existence of the private and the public sectors is thus an accepted policy, and public enterprise is, therefore, of a special significance in India. In a socialist economy, nationali-

sation is effected with an eye to earn better revenue<sup>1</sup>. But the revenue motive occupies only a secondary place in India's nationalisation policy, which is based more on distributional effects of economic activities.

The growth of public enterprises can be conveniently divided into two periods—(a) pre-independence period and (b) post-independence period. In the British period, the economic policy continued to be that of laissez-faire, which was in fact “followed till the beginning of the twentieth century”.<sup>2</sup> In 1905, a special Department of Commerce and Industry was set up by the Government of India, and an industrial conference was held at Nainital in 1907, which decided in favour of the State taking “an active part” to help industrial development by organising pioneer concerns from the national point of view. Due to the pressure of Indian public opinion the Government appointed in 1916, an Industrial Commission which recommended the Government to initiate “a policy of energetic intervention in industrial affairs.” Lord Morley, the Secretary of State for India, at that time, did not, however, favour active participation of the Government in establishing industries, but he wanted its activity strictly “confined to industrial instruction”. Ultimately, however, the recommendations of the Industrial Commission, being reinforced by the recommendations of the Fiscal Commission of 1921, led the State to take an active rôle in the industrial development of the country. In the British period the State enterprises were confined to some specific fields, such as, defence industries, railways, posts and telegraphs, radio and ports. But the spur of nationalisation move has really been remarkable after the independence, beginning with the creation of the Industrial Finance Corporation and the Damodar Valley Corporation in March, 1948. The move has, however, taken a concrete shape since 1953 in which year the private institution of Air Transport was nationalised.

<sup>1</sup> Sir Jeremy Raisman advocated nationalisation as a “means of increasing revenue”.—See the Leading Article in *The Eastern Economist*, June 12, 1946, and also Dr. K. N. Raj : Article : *Investment Magnitudes and their Implications in Economic Discussion on the Second Five Year Plan* p. 131.

<sup>2</sup> D. R. Gadgil : *The Industrial Evolution of India in Recent Times*, 1948 p. 191.



## Pre-independence Period State Enterprises

The Post & Telegraph is the first public undertaking in India. The British Postal system that was firstly introduced in 1766 by Lord Clive for official purposes only, was gradually extended to the public. The foundations of the present organisation of the Post Office were laid by the Post Office Act (Act XVII) of 1854, according to the provisions of which, "the Postal Department in the whole of India was placed under the control of a Director General". It is a purely departmental administration and it functions on commercial basis. The Postal organisation is the biggest State undertaking, second only to the Railways, in India. "Although India suffered from the ignominy of foreign domination, and the John Company initiated the Postal system entirely in the interest of its own trade and in order to implement its political hold on the country, the introduction of a highly organised Postal system, on modern lines, unconsciously helped to create a new unity in India"<sup>1</sup>. The Postal organisation is now administered by an autonomous Board created recently<sup>2</sup>, by reconstitution of the existing Board with extended powers.

Defence industries come within the fold of the public sector for strategic and security reasons. The origin of Ordnance Factories dates back to the early nineteenth century and they were set up between 1834 and 1915, on an ad hoc basis "to suit the requirements of Colonial forces stationed in India". Arms and Ammunition continued throughout to be the exclusive State's responsibility in the Industrial Policy Resolutions in India made from time to time. Private sector has had no penetration in this sphere except on "Agency Basis" for supply of minor ancillary goods. The number of Ordnance and Clothing Factories in India, that was only 8 in 1939 increased to 16 at the time of partition, and at present there are 20 such Ordnance and Clothing Factories in India under the Ministry of Defence. The latest defence industry, the Bharat Electronics Ltd. has

<sup>1</sup> *Story of the Indian Post Office*—edited by Mulk Raj Anand. 1954 p. xiv.

<sup>2</sup> *Statement by the Minister of Transport & Communications in Lok Sabha* on 11. 9. 59—Also *Lok Sabha Debate*, Dec. 3, 1959 Col. 3266.

been given the company form of management under the Defence Ministry.

The Railways are the biggest public undertaking in India. The Indian railways that remained under the control and administration of different companies were brought under public ownership in a gradual process in the British period. Conflicts arose due to the division of ownership and administration between the State and the private companies. "The exercise of control without responsibility for management on the Government side and actual management without power to take initiative resulted in creating the worst of both the worlds in the field of railway administration"<sup>1</sup>. The Acworth Committee, appointed in November 1920 to record its finding on the working of the Indian Railways and to recommend measures for improvement, remarked, "Though a company investing its own money, managing its own property and judging its officials by their success in producing results in the shape of dividends usually conducts business with more enterprise, economy and flexibility than are common in business directly managed by the State, the English companies managing State Railways in India have long ceased to be companies in this sense"<sup>2</sup>. The general dissatisfaction about foreign company management in this country showing itself "wilfully negligent of national interests" was also recorded, and the Committee recommended that the State should manage directly the railways which "it already owns"<sup>3</sup>. This recommendation paved the way to the nationalisation of the Indian Railways in a gradual process. The railways were brought under departmental management of the Government although the Railway finance was separated from the Central Budget in 1925 with the provision of a regular contribution of the Railway finance to the Central Budget. This assured a regular revenue for the Treasury. The success

<sup>1</sup> P. Prasad—*Some Problems of Public Enterprises in India*, 1957 p. 100.

<sup>2</sup> Report par 210.

<sup>3</sup> Report par 212.

of nationalised Railways is now well reflected in the enormous mounting up of railway assets year to year.<sup>1</sup>

The Broadcasting Service under the "All India Radio", as it is today, has seen many changes from its early form. The British Broadcasting Service in Great Britain was started as a State enterprise since its inception but the Broadcasting Service in India came under the State ownership only as a result of insistent public demand. Originally, the Indian Broadcasting Company was functioning since 1927 but due to lack of patronisation and for financial reasons it went into liquidation. The reason of the sad plight of this pioneer broadcasting organisation is not far to seek. The British authorities who had little motive to impart educative and informative services to the people of India did not like incurring any large expenditure on this count. The public demand was, however, too strong to resist and in 1932 decision was taken to bring the broadcasting services under the direct State ownership and management. The real fillip was, however, imparted by the pioneering work of Mr. Lionel Fielder and Mr. H. L. Kirke, the two experienced top personnel of the B. B. C. who were appointed as the Administrator and the Adviser respectively, in India. Expansionary measure that took its form from 1936 with the setting up of "All India Radio" has now assumed a very big proportion and, All India Radio is today an admirable instance of educative service under direct departmental management.

India possesses a vast coastline of 3 500 miles and it is but natural that development of ports and harbours should find its place in the developmental programmes of the country. No doubt, there is scope for an enormous development in this respect. At present there are only six important ports, which are Bombay, Madras, Cochin, Calcutta, Vishakhapatnam and Kandla. Kandla is a new port developed out of necessity due to the territorial position of Karachi, an important port of undivided India, falling in Pakistan. The possibilities of further

<sup>1</sup> The capital-at-charge of the Railways has risen from about Rs. 834 crores in 1950-51 to about Rs. 1559 crores in 1960-61 and is expected to increase to about Rs. 2313 crores at the end of the Third Plan—Govt. of India, the *Third Five Year Plan*, p. 541.

development of ports are being explored, and a new port plan at Haadia, off Diamond Harbour coast near Calcutta, is an instance in point, which is to receive the highest priority in the Third Plan<sup>1</sup>. Under the Constitution, the responsibility for running the major ports vests in the Central Government, while the other minor ports are within the executive responsibility of State Governments. The Presidency Ports of Calcutta, Bombay and Madras are under the control and management of the Port Trusts administered by the Commissioners. Port Trusts are autonomous bodies governed by the legislation of Parliament subject to the policies formulated by the Central Government. Proposal for setting up three more Port Trusts at Visakhapatnam, Cochin and Kandla is already there.<sup>2</sup>

### Post-independence period—urge for public ownership

The earlier nationalised institutions had, however, produced no particular stir in the economic life of the nation, and they were conceived more as a measure of administrative convenience than as a planned process of economic development. The impact of the earlier nationalisation was not, therefore, of much significance. The nationalisation move in India has, no doubt, assumed its importance after the attainment of freedom and with the pulsation of a new life. The first programme in regard to the rôle of State enterprise after independence can well be traced to the programme of the Economic Programme Committee of the Congress in January, 1948 that laid down direct ownership and control of the State of certain industries such as defence, key industries and monopolistic undertakings. This was followed by the official announcement of the Industrial Policy by the Government in April, 1948, allocating economic activities between the public and the private sectors. And the Industrial Policy enunciated in the Government Resolution issued on April 30, 1956 is, indeed, the emblem of socialistic ideology and, a definite role has been assigned to the State to achieve it.

<sup>1</sup> Announcement by Dr. P. Subbaroyan, Union Minister for Transport, in Lok Sabha on 24. 1. 60. See the Statesman, Calcutta, dated 25. 1. 60. Also Planning Commission—*Third Five Year Plan* p. 559.

<sup>2</sup> The Statesman, Calcutta dated 15. 9. 61.

The study of nationalisation policy of India unmistakably indicates that the nationalisation move is bent more towards exploring the untrodden fields of economy than towards disturbing the existing private sector, unless the latter is made necessary by overriding public interests. The steel plants in the public sector are instances in point which now supplement the private sector existing in the field.

The nationalisation policy of India is not, however, confined to any particular area or areas of economic activity ; neither is it aimed at to bring a private enterprise or an industry as a whole under public ownership. The state has extended its arms towards the different regions of economy. The financial institutions, trading organisation, multi-purpose projects, key and basic industries, transport and humanitarian institutions—all comprise today the public sector in India. In fact, from the sphere of banking to matters relating to health and hygiene and block development are now within the scope of public enterprise in India. A pertinent question arises why the country has laid so much stress on public enterprise in all conceivable fields of economy. The reason is not far too seek. The tendency of an under-developed free country is bound to gear to a rapid development in all spheres both economic and political and it is a truism that the brunt of the colossal task of development can only be borne by the State itself, and cannot be left to the free will of the private sector alone<sup>1</sup>. Nevertheless, the task of private sector in the development programme of the country is no less significant though India, unlike the Arab States, is not to leave the development of the country to the private sector, nor is it the policy of India as in Japan or Mexico to hand over a public enterprise after some time to the private sector. The public sector in India is quite alive to the task entrusted to it for an all-round development of the country and the private sector is considered an active partner in the venture.

### **Public Sector : A larger place in the Plans**

Although this work is confined mainly to the public corporation in its proper sense, it would not be out of place to record

<sup>1</sup> U. N.—*Public Industrial Management in Asia and Far East*, New York, 1960 p. 55.

some of the public enterprises as a whole in brief. In the national planning the public sector has been given a crucial position aimed at developing the country. The place given to the public sector in economic development in India can best be testified by the amount of investment provided in the Five Year Plans in the public sector, as shown below :

	(In Crores of Rupees)		
	Total investment	Public sector investment	Private sector investment <sup>1</sup>
First Five Year Plan	3360	1560	1800
Second Five Year Plan (1956-61) anticipated	6750	3650	3100
Third Five Year Plan provided <sup>2</sup>	10,400	6,300	4100

Thus, the percentage of investment in the public sector which stood at 46.4 has increased to 54 under the Second Plan, and this will have increased to 60.6% under the Third Plan.

The capital employed in the public sector cannot be exactly available but roughly the position may be stated and comparison may also be drawn with the private sector investment position. Total paid-up capital in the private and public Companies (other than in the public sector) stood at Rs. 1,725 crores at the end of March, 1961.<sup>3</sup> Total investment in the public undertaking (46 in number) is about Rs. 908 crores excluding investment in Railways and other departmental undertakings and electricity undertakings. If investment of Rs. 1560 crores in railways is included, the total would come to about Rs. 2468 crores.<sup>4</sup> Thus, investment in the public undertakings amounts to about 35% of the total investment in the corporate sector excluding railways and to about 60%, if the railways investment is included.

The figures stated above leave no room for doubt that the developmental programme of the country is more oriented to

<sup>1</sup> Excludes transfers from public to private sector.

<sup>2</sup> Planning Commission : *Third Five Year Plan*, p. 59.

<sup>3</sup> *Hindustan Year Book* 1962, p. 542.

<sup>4</sup> *The Third Five Year Plan—Draft Outline* pp. 60-61.

the public sector than the private sector. A national plan can, however, be successful if the activities are channelised on a due consideration of the priorities amongst the competitive objectives, and herein lies the test of prudence and supremacy of the planners in an under-developed economy. Projected plans can take a concrete shape with proper husbanding of resources catering to the needs of the community, wise application of money raised internally and externally and vigilant action in curbing the inflationary trends by effective fiscal policies and adjustment of price-index. But unlike in Britain and France, the conception of public sector in India is rather different in some aspects. The reason of this difference is, of course, traceable to the position of an underdeveloped country, which suffers from many a disability and disadvantage inhibiting venturesome spirit and impeding growth in various ways. Paucity of financial resources, dearth of domestic skill, stagnation of imagination and thoughts are some of the major obstacles to development. In the U.K. and France, nationalisation has been effected on a particular industry as a whole, whereas in India either there is a partial nationalisation of a private enterprise, as for example, life insurance and not any other insurance has been nationalised, or the public sector in a particular field of economy is being developed side by side with the existing private sector, which is left undisturbed, as in the case of steel industries. The collectivist ideology as hinted by Prof. Shibanlal Saksena in the words that "the theory of mixed economy, I should say, is a most vicious theory and it should not be allowed to play havoc in the development of key industries,"<sup>1</sup> is a pessimistic view and ignores the practical situation of India which is forging towards an enormous development usually unachievable by the public sector alone.

### Public undertakings in general

State ownership and control are advocated for public utilities mainly for two reasons,—(1) Technical and (2) Welfare considerations. Technical necessity to operate a single public utility concern in a territorial region to

<sup>1</sup> Constituent Assembly of India (Legislative) Debates 12th Dec 1947 p. 1839.

avoid deadlock and to assure continuous operation is a forceful argument against unfettered entries of the private sector into the field. In the case of electricity, the organisation, such as the Calcutta Electric Supply Corporation Ltd. has been functioning under a Charter defining its powers and limits, which is the instrument of controlling a public utility concern when the State hesitates to directly assume administration over it. River projects aiming to be the multi-purpose projects inevitably come within the category of public utilities and the state must function directly here. Among the river projects, the colossal projects in India are Damodar Valley, Bhakra Nangal and Mahandi (Hirakud) projects. They are all multi-purpose projects. The Bhakra Nangal Scheme is under the management of the Bhakra Control Board composed of the representatives of the Punjab, PEPSU and Rajasthan Governments, set up by a Resolution of the Government of India in September, 1950. The functions of the Control Board are "to manage, administer and supervise the execution of the project" and this Board may be taken as the general pattern of the other Control Boards. The Mahanadi Scheme is under the management of the Hirakud Control Board set up according to a Resolution of the Government of India in March, 1957. In fact, all the river-valley projects in India except the Damodar Valley Project, are under the management of the Control Boards, whereas the Damodar Project has been given over to a Statutory autonomous body set up by the Act of Parliament, which aspect is discussed below.

Financial paucity generally does not allow the Government of India to undertake any economic venture exclusively, but a study of the nature of industrial undertakings wholly owned by the Central Government will definitely testify to the prudence of the Government to keep the basic and key industries under its exclusive ownership and control. The instances are Hindustan Steel, Sindri Fertilisers and Chemicals, and Hindustan Machine Tools. These institutions of the basic industries, on which the extension of secondary industries depends, are wholly owned by the Central Government. The mightiest undertaking is the Hindustan Steel that was registered on 1st April, 1957 to construct three steel plants at Rourkela, Bhilai and Durgapur. Although the three steel plants are installed in three different



States, the management is given over to a single company with a view to making co-ordination possible. This giant undertaking envisaging construction of Rourkela plant (Orissa) at a cost of Rs. 170 crores, Bhilai plant (Madhya Pradesh) at Rs. 131 crores and at Durgapur (West Bengal) at Rs. 138 crores, provides an indication of the magnitude of development in the public sector of the country. The special feature of the undertaking lies in the efficient handling of the Government of India of the problem in setting up of the plants at the background of many internal shortcomings of the country and in the context of a sense of developed nationalism inhibiting foreign capital from having any permanent interest in the undertaking. As a result, the three plants are being set up with the financial and technical collaboration of the three foreign Governments. The matter of setting up steel plants was, however, mooted as early as in 1949 when the two consultants, Messrs. Koppa & Co. and Arthur G. McKel & Co. of the U.S.A. and the International Construction Co. of the U.K., were appointed to report on this matter. The consultants made a report emphasising the need to set up one or more plants to produce not less than 10 lakh tons of steel. But it was not until 1954 that the decision to set up a new steel plant materialised. The Government thus "lost five valuable years and a very good opportunity to put up the steel plants in the country at a cheaper cost and at a time when they were most needed".<sup>1</sup>

The Rourkela Plant is set up under an agreement with Krupp-Demag combine of Germany in 1953, while the Bhilai plant is constructed in collaboration with the Soviet Government, and the Durgapur Project under a contract with the British consortium of 13 of the most famous British engineering and electrical industries, known as Indian Steel Works Construction Company Ltd. (ISCON). The contract with ISCON envisages a package deal for the supply of plant and machinery, technical know-how and construction of the plant for Rs. 138 crores payable by the Government in suitable instalments with an interest of 6½% per annum. The foreign companies under the

<sup>1</sup> *The Estimates Committee, 33rd Report (1958-59)—Introduction.*

"Turn-key" contracts have the duty and obligation also to technically train up Indian personnel at their respective countries under the Colombo Plan in order to enable India to run the plant by her own men after it is handed over to the Government of India on its completion and initial operation with their own personnel as a going concern. Likewise, the German combine and the Soviet firm have the responsibility of designing and manufacturing of plant in their countries and install them in the respective sites with economic and technical assistance. The steel plants are the outstanding monuments to the fruitful co-operation between the Government of India and the foreign governments and it is also a healthy sign of increasing faith in the principle of co-existence of the nations. The three steel plants will not only transform the economy of the country in many ways but also in the process of development, many satellite and subsidiary industries, big and small, will grow being fed by the steel projects. This, no doubt, heralds the throbbing of a new and healthy life of the nation. The supremacy of the steel projects lies in the full ownership of the government as the developmental programmes can only be ensured by exclusive ownership and control of basic industries by the State to lay out policies for their extension and marketability of the products with plans for their horizontal as well as vertical expansions. The Government of India has thus preferred to set up new plants under their own aegis rather than nationalise private institutions in this particular field.

The justification for ownership of the State of an important basic industry like fertilisers in a country, where agricultural development is a vital necessity, cannot be overemphasised. The poor agrarian economy of India felt the need for a fertiliser industry for long, and free India has lost no time in conceiving the industry under full ownership of the State and implementing it by setting up the industry at Sindri in Bihar at a cost of Rs. 23 crores to produce 350,000 tons of ammonium sulphate every year. This is a State-owned Company formed in 1951. The extension of the scheme by setting up of a coke-oven plant and a cement manufacturing plant is an endeavour to make the industry self-sufficient, and Sindri is fast becoming the

nerve-centre of heavy chemicals and allied industries. Chemicals and fertilisers, which are most important materials for the progress of agriculture on which the multitude of rural population depend, must necessarily be handled by the State with a definite policy of distribution on an equitable basis after a careful consideration of the problem as a whole and this matter cannot be given over to the private sector with confidence as the commercial policy of the private sector may not be compatible with the objectives of the State.

Likewise, the Hindustan Machine Tool Company, set up in February, 1953, to produce engineering machinery and implements, is to assume great importance for meeting the requirement of industries in the public sector. The motives of non-profitability, low cost of production and meeting a larger demand in the near future need a steadfast policy of production and priority, and these can be achieved with the State's total ownership of the basic industries. Indeed, the rational policy and programme of priorities in the developmental process of economy call for the State fully to own and control the basic industries on which the foundation of the economy of the country rests.

In India, Chittaranjan Locomotive Works, run by the Railway Board under departmental management, Hindustan Aircraft Factory in which the Central Government and the Government of Mysore participate ; Integral Coach Factory, Perambur ; Bharat Electronics Ltd., Bangalore ; Hindustan Machine Tools Ltd., Hindustan Cables Ltd., and National Coal Development Corporation are the instances of the State ownership where no private sector has any participation. A difference is noticeable in India in cases of the Shipping industry and Telephone industry, where the State acts in partnership with the private sector. In the case of Shipping, a company, namely, Hindustan Shipyard Ltd., was formed in January, 1952, with an authorised capital of Rs. 10 crores, of which paid-up capital stands at Rs. 518.17 lakhs. The Central Government holds shares of Rs. 413.92 lakhs and the Scindia Steam Navigation Company Ltd. holds shares valued at Rs. 104.25 lakhs as on

31. 3. 59<sup>1</sup>. While there should be no cause of apprehension from the participation of the private sector in such a vital sector of transport industry, it is, however, expected that the state would progressively take over the industry as a whole in the gradual process of nationalisation. The technical guide and assistance has been arranged under a contract with the French firm, the Société Anonymé des Ateliers etchantièrs de La Loire. This is no doubt an admirable instance of partnership of the State with the private sector. But with the growth of harbours at different coasts notably at Kandla and Haldia and increasing demand of merchant navy for defence purposes, the need for extension of Shipyards and production of ships is likely to be on a large scale, and the State should therefore acquire full ownership and control of this section of transport industry in the national interests. A peculiar example of participation of the Central, State Governments and a private foreign firm is noticeable in The Indian Telephone Industries Ltd., registered in January, 1950. This is the only factory of its kind where such integration of the Governments and a foreign firm has taken place. The percentage of interest of the firm, the Automatic Telephone and Electric Co. Ltd. at Liverpool is very small and stands at 3% of the shares. The necessity of inviting a foreign firm was felt due to the need of supply of technical know-how and assistance and, the agreement in this respect executed in May, 1948, is for a term of 15 years, after the expiry of which the undertaking is expected to be wholly owned by the Government.

### Public Corporations Introduced<sup>2</sup>

Public corporations have been brought into existence by parliamentary statutes mostly in new fields of economic and social activities and also in the process of nationalisation of private institutions, although in a restricted measure. It is pertinent to notice that nationalised private institutions have been invariably given over to autonomous public corporations. Thus, life insurance business, since nationalised,

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<sup>1</sup> Source : *Government of India—Principal Public Sector Undertakings In India*, March 1960 p. 47.

<sup>2</sup> See Annexure A.

is under the ownership and management of "Life Insurance Corporation of India"; nationalised air transport has been taken over by two autonomous corporations, namely, Indian Airlines Corporation and Air India International; nationalised Imperial Bank of India is now christened under the name of State Bank of India, which is a public corporation. Public corporations, though introduced mainly in new economic fields, cover a wide and diverse range. For example, the Industrial Finance Corporation of India has been set up for financing industries, the Employees' State Insurance Corporation for the welfare of the industrial workers, the Central Warehousing Corporation for storing agricultural produce, Rehabilitation Finance Administration to help rehabilitating the "displaced" persons. The only multi-purpose river project in which the public corporation has thrived on the model of the Tennessee Valley Authority of the United States is the Damodar Valley Corporation.

### **Damodar Valley Corporation**

In the chronological growth of the public corporations in India, the Damodar Valley Corporation, which was brought into existence in 1948, heralded the beginning. This is a giant multi-purpose project and its magnitude and working have engaged international attention. The river Damodar that devoured villages and districts by the fury of its annual devastating floods, damaged crops and cattle, and brought untold misery to the villagers and the people, was characterised as the "river of sorrow". Taming the river and husbanding it for the welfare of the people engaged serious attention of the leaders, politicians and the public, but no effective scheme could be envisaged earlier. A Committee, appointed in 1943, made a report for a full-fledged "multi-purpose" scheme. Flood control, irrigation and generating of power are the principal purposes of the Scheme and, in piloting the Damodar Valley Corporation Bill, Shri N. V. Gadgil, the Minister of Works, Mines and Power, who "hammered out the details of the Bill", asserted, "I would not hesitate to call it 'a valley of death and destruction' today and to say that when the scheme becomes a reality the valley

will be turned into 'a valley of prosperity and happiness' ".<sup>1</sup> The Bill modelled on the T.V.A. of the U.S. did not favour direct management by the Government but a via media was found out in which "the question of policy will be laid down by the Central Government but in the actual day-to-day administration of the Corporation, the Central Government will not interfere",<sup>2</sup> and, the spirit of a public corporation lies in these words. The D.V.C. Act became law in March, 1948. The multi-purpose river project itself proves to be an advantage in many ways as the regional concept of development and division of functions and purposes between different agencies not only tend to complicate matters but run the risk of not an infrequent deadlock due to difference of opinion between different State Governments. This aspect was sounded by Shri K. Santhanam who said, "I know that the Tungabhadra Project in Madras has been delayed by 20 years because the two or three Governments concerned would not come to an agreement".<sup>3</sup> The same obstacle is precisely brought out in the words of Mr. Kanwar Sain as he speaks, "Imagine the confusion which would follow if one set of agencies attempted to develop a river for navigation, another set for power and third for flood control. There would be endless competition for favourable dam sites, perpetual bickering over the storage and release of water. But when the objectives are to develop the river for all three purposes plus every auxiliary benefit, the problem is already half-solved".<sup>4</sup> Multi-purpose project is, therefore, an advantage in itself and it is in consonance with this spirit that the project should be taken over for management and control by a single agency that has no interference by the Government in the execution of its programme. No parochial outlook should prevail in such an undertaking of social importance. But unfortunately, during the debate on the D.V.C. Bill, this feeling was manifest on which Shri Srikrishna Sinha lamented, "it sickens my heart to find my friends objecting to it on the ground that it will be more to the interest of Bengal

<sup>1</sup> *Constituent Assembly of India (Legislative) Debates* 12th Dec. 1947 p. 1833

<sup>2</sup> *Ibid* p. 1834.

<sup>3</sup> *Ibid* p. 1847.

<sup>4</sup> *Multi-purpose Project in U. N. Formulation and Economic Appraisal of Development Projects* Vol. II p. 709.

than to Bihar....India is geographically a whole and to that belief we have sworn."<sup>1</sup>

Incidentally, the Colorado Compact signed in 1922 can be cited as an instance of inter-State compacts for apportionment of the use of part of waters of the river, which embraced seven States "for the equitable division and apportionment of the use of the waters of the Colorado river system".<sup>2</sup> But the Compact was not successful in fully solving the problem and no authority was set up to consider all the needs in relation to the water supply and the changing economy of the United States as a whole. As a result, "rivalry between the States was intensified". Similarly, an awkward position was patent in the Compact between the States of New Jersey and New York in 1921 that brought the New York Port Authority into existence "to administer the affairs of that great port". Serious controversies arose over rates and this culminated in the setting up of the Inter-State Commerce Commission in 1917, which in probing the cause of controversy "reprimanded the private interests, the rail-roads and others which had supported and fomented the hostility by their individual quests for their convenience and profit",<sup>3</sup> and ultimately, a body corporate and politic was set up. Such deadlock also arose due to conflicts between Israel and the Arab over the utilisation of the waters of the Jordan and its tributaries. The Jewish Plan known as the "Johnson" Plan was unacceptable to the Israelis who made a counter-plan, known as the "Cotton Plan", and although the issues in dispute were later narrowed "as a result of extremely complex and tortuous negotiations", the scheme did not, however, make progress further.<sup>4</sup> All this goes to prove that the river system that flows over more than one State requires some independent body to control it for catering to the needs of different States unhindered by the "conflicts" of individual interests of the States. Realism, therefore, demanded for

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<sup>1</sup> Prof. Henry C. Hart—*New India's Rivers*. 1956 p. 75.

<sup>2</sup> Herman Finer : *The T. V. A.—Lesson for International Application* p. 262.

<sup>3</sup> Herman Finer : *Op. cit.* p. 263.

<sup>4</sup> Hanson A. H. : *Public Enterprise and Economic Development*, 1959 p. 307.

setting up an independent body to carry out the Damodar Valley Scheme and the Damodar Valley Corporation was set up under the specific Statute in 1948. The concept of the D.V.C. is not, however, based on the control of the project by the Union Government as, here the State powers have also been properly retained. "It is one of the great strengths", says Prof. Hart, "of the working constitution that federalism has a sturdy growth in the functions of irrigation, electrification and flood control. It is vital that State powers continue to be exercised. The carefully thought out D.V.C. Act preserved them in the States".<sup>1</sup> The D.V.C. is, therefore, an example of harmonious effort of the Central and the two State Governments of West Bengal and Bihar.

### **Industrial Finance Corporation**

In the same year another public corporation, known as the Industrial Finance Corporation of India, was set up. The historical background of this institution can be traced to the pronouncement of Industrial Policy by the Government in April, 1945, following which the General Purpose Committee appointed by the Planning and Development Department decided that the subject should be examined by the Ministry of Finance. In implementing this decision, the Reserve Bank of India prepared a Bill for the establishment of an Industrial Finance Corporation "to provide medium and long-term credit to industrial enterprises in India where recourse to commercial banks or capital issue channels is considered inappropriate". This Bill was intended to be introduced by Sir Archibald Rowland in the Budget Session of 1946, but due to heavy legislative programme it was abandoned. The Bill, "an orphaned and abandoned child", was adopted later by Shri Sanmukham Chetty, the Finance Minister, who piloted the Bill on 20th November, 1947. The object of the Bill was declared as not to meet all the capital needs of an industry but to "supplement existing facilities available for the supply of medium and long-term capital to industry". The scope of the functions of the Industrial Finance Corporation has been further restricted to private enterprise and not to meet the requirement of basic and nationalised industries.

<sup>1</sup> Op. cit. p. 268.



The I.F.C. signifies an important step in the history of industrial finance in India, although the matter was long overdue, inasmuch as in Europe, Canada and Australia, similar institutions were already set up long ago. France took the lead to create "Banque d'affaires" and the idea spread over subsequently to Finland, Poland, Saxony and the United States. The Industrial Finance Corporations were conceived lately in Great Britain and in 1945 two Industrial Finance Corporations, namely, the Finance Corporation for Industry Ltd. and the Industrial and Commercial Finance Corporation, were established. The former is meant to provide finance for the industries for their quick rehabilitation and development in the national interest and the latter to supply the medium and long-term capital to the small and medium sized business of the country. The Finance Corporation for Industry of Great Britain has supplied the model of the Industrial Finance Corporation of India and the I.F.C. has equity capital as in a company, but the holdings are restricted to groups of different institutions. It is a nationalised institution but at the same time an admirable institutional device in employing the resources of financial organisations such as Insurance and Trust companies, which form a part of its capital. In Canada, the responsibility of industrial finance has been delegated to an organisation, namely, the Canadian Development Bank, which is a subsidiary to the Bank of Canada. A conspicuously different method was followed in Australia where a separate Industrial Finance Department was created in the Commonwealth Bank, and under the Commonwealth Bank Act of 1945 the scope of the functions of an industrial corporation of this kind was enlarged not only in providing initial and working capital but also advising on operational methods of the industrial undertakings to bring them to a success. In the recent Amendment, there have been changes in the organisational set up in which the Department is no longer a part of the Commonwealth Bank but has been given over to a different organisation known as the Commonwealth Development Bank formed by the amalgamation of the present Mortgage Bank and Industrial Finance Departments of the Commonwealth Bank.<sup>1</sup>

<sup>1</sup> *Reserve Bank of India Bulletin*, July 1959 p. 854.

The necessity for the Industrial Finance Corporation may be questioned in a situation where commercial banks and other traditional financial institutions are already functioning in providing industrial finance. It is common knowledge that the commercial banks which constitute the largest source of floating capital for industries are loath to lock up their funds in long-term loans ; neither are they agreeable to provide initial finance to an industry, the future of which cannot be readily foreseen and also to those industries that take time to fructify. This attitude of commercial banks is one of the greatest hindrances against industrial development of the country, and the State must act and assume the rôle as a provider of necessary finance in suitable cases in the national interest. The I. F. C. has, therefore, gone to fill up a gap in the field of industrial finance as, due to paucity and unassured supply of capital, industrial development in the country was stifled to a great extent. The wisdom of setting up a separate industrial finance corporation rather than creating a separate wing of the Reserve Bank for industrial finance on the line of the Commonwealth Bank of Australia was questioned.<sup>1</sup> The Central bank, in general, should not have much of commercial banking, for, its responsibility lies mainly in monetary and credit control and in consonance with this principle it seems prudent not to saddle the Reserve Bank authorities with an additional burden of commercial banking in the process of financing industries. The I. F. C. is, therefore, a prudent device. What is required is the judicious investment of funds with sufficient security. Mere social interests cannot be an influential factor in the policy of investment by I.F.C. but social considerations must be reinforced by the possibilities of the industries in which investments are intended to be made. In this respect a team of experts as on the lines of I.C.F.C. in Great Britain should be appointed, the duty of which would be to guide and advise on the judicious application of funds by the industries.

### Rehabilitation Finance Administration

In 1948, two more public corporations were established. Social considerations have led to the creation of these

<sup>1</sup> Speech of Prof. K. K. Ghosh, *Constituent Assembly Debates* dt. 21. 11. 47 p. 459.

two public corporations, namely, Rehabilitation Finance Administration and Employees' State Insurance Corporation. Hundreds of thousands refugees being uprooted from Pakistan due to the political partition of the country migrated to India and these "displaced persons" needed rehabilitation and for this purpose the financial accommodation was absolutely necessary to keep them from falling into complete decay. The rehabilitation of refugees is a colossal problem which could be compared with that of the East Prussia when Russia took charge of it. The purpose of this Administration is to provide the refugees with easy term loans for setting up small and medium sized industries which will help them settle in India and earn a rightful and honourable place in the society. This Corporation has, therefore, come into existence as an exigency of circumstances as the Government has undertaken the prime responsibility of rehabilitating the displaced persons so that they could get a soothing balm for their wounds resulting from political partition of the country, in the shape of financial help, and this task has cast a stupendous responsibility on the Rehabilitation Finance Administration. But it would be a mistake to take the R.F.A. to be a philanthropic organisation as its functions are entirely based on commercial lines, that is, to advance loans on interest in suitable cases to help the displaced persons to get a start in their life anew in India. This prime responsibility, of course, cannot be entrusted to any private organisation and the social interest has urged the Government to establish this public corporation.

### **Employees' State Insurance Corporation**

Similarly, the plight of an industrial worker in India can better be imagined than described. Living on a pittance, in filth and squalor and on the mercy of the employer, he suffers from physical and mental agony and social disrespect. He enjoys neither social security nor self-confidence and one day passes away leaving his widow and children destitute and in abject misery. Social security measure is undoubtedly a task that should lie in the hands of the Government. But this matter remained only a pious wish until Free India embarked on adopting the workmen's State Insurance Bill on 21st November, 1947 which led to the

establishment of the Employees' State Insurance Corporation. It is undoubtedly a first step towards social measures and "marks a milestone in our onward march to make up the lag in labour laws." It is extended to perennial factories providing for sickness, medical, maternity, disablement and dependent's benefits. This type of social security measures today prevails in most of the developed and semi-developed countries. The employers have been called upon to shoulder a bounden responsibility of ameliorating the lot of the worker and this measure has got immense educative value. Industrial workers have hitherto received ruthless maltreatment from the employers whose eye was always fixed on profits rather than human consideration of sharing the fruit of the industry with the workers, to whose credit goes its success, in the shape of increased wages, social insurance and other amenities. Sickness benefit is based on the finding of Prof. Adarkar Committee in 1943. It is a conspicuous contribution towards labour laws inasmuch as the other labour legislations aim at increased wages and other conditions of service but this has the peculiarity of providing benefits to the labour while in employment in an industry, in case of his failing health, distress and misery. It is pertinent to note that the scope of the benefits will gradually extend to all fields including agricultural workers and dock labour. It is a happy augury that Free India is forging the destiny of its workers in the cause of the national uplift. This task can only be successfully fulfilled when entrusted to the public sector. But a question may arise why the Ministry of Labour has not directly assumed the responsibility of functioning departmentally for the purpose. The reason is not far to seek. The scheme requires a lot of accounting process and a constant touch with the industries concerned and the Ministry should not usually assume an added responsibility of day-to-day operation of such nature, and this feature undoubtedly calls for an independent body to act although under close supervision and general direction of the Minister.

### **Air Corporations—The First Nationalisation of Private Enterprise**

After a lapse of five years, two public corporations were further brought into existence in 1953 as a result of

the nationalisation of air transport service. Before entering into the discussion of nationalisation aspects of air transport, it is necessary to have a glimpse into the past and to understand the problems involved in this particular sphere and to unearth the circumstances that called for its nationalisation. Human flight in India first began by balloon when Mr. Joseph Lynn made a flight at Bombay rising to a height of 7500 feet. Army officers used to make "demonstration drive", and in 1911 the world's first air mail was flown from Allahabad to Naini Junction, a distance of six miles, by one French Pilot, M. Picquet. The Imperial Conference held in London in 1926 emphasised the necessity of "forging closer links" between Great Britain and her Empire. Thus the stage was set for India to develop the aviation with the aim of making possible "closer and more constant the unity of Imperial thought, Imperial intercourse and Imperial ideals".<sup>1</sup> But the stride of development was only visible after 1932, in which year Tata Sons organised the first Indian Air Service between Bombay and Madras, and in 1933, Indian National Airways was established to operate between Karachi and Lahore. The plans of Imperial Airways for a service between England and India in 1926 also provided a stimulus to Civil Aviation in India and accelerated the pace of development. The matter was considered so important as to lead to the establishment of a Department of Civil Aviation, in 1927. During the World War II there was a prolific extension of air services in India due to the necessity for speedy movement of freight traffic and increased passenger traffic in the new lines, resulting in the construction of hundreds of new aerodromes and improvement of flight techniques, and air transport was considered as "a safe, efficient and comfortable form of transport". Many private operators crowded the industry and as a result, though operationally the air lines were thriving well, financial weakness was distinctly felt. The Government of India realised that the air services in India must keep abreast of the developed countries, and improved techniques with improved types of planes should be introduced for an efficient and competitively successful air services, and the

<sup>1</sup> Speech by Samuel Hoare, Secretary of State for Air, Great Britain 1927.

Government had also "post-war" plans for the development of Civil Aviation. Many private parties applied for licence and the Licensing Board did considerable "weeding out amongst the applicants" and eventually granted licences only to eleven companies to operate. The financial weakness, however, became marked and the Government had to find way to extend financial help by way of subsidies and in the shape of rebate of a portion of the duty on the petrol consumed by the airlines. But the costs of operation were steeply rising and the air companies did not fare better. In 1950, the Government set up a Committee of Enquiry under the Chairmanship of Justice Rajadhyaksha to investigate into the working of the airlines and make recommendations to the Government towards betterment. The Air Transport Inquiry Committee came to the conclusion that there were greater number of operating units in the country than were necessary and they also found "the cost of the most of the companies excessive". This finding sowed the seed of the nationalisation of air transport in India. "It is clear that if the companies are to continue to exist", said Shri Jagjivan Ram, the Minister of Communication, while piloting the Air Corporations Bill, "financial assistance from the Government will have not only to continue but to be increased otherwise sooner or later many of the companies would be forced to wind up".<sup>1</sup> The Committee further estimated that if in the place of the 8 or 9 operating units there were only a single unit operating all the services, the saving would be of the order of about 8 per cent on the existing cost. The Planning Commission also recommended nationalisation of air transport in the public interest. But the Government was not hasty in stepping towards nationalisation and every attempt was made to keep the air transport in the private sector from falling from its feet, and with this object in view, voluntary mergers were suggested to the Air Companies but there was little response. No responsible Government could, under the circumstances, afford to be a passive onlooker, and some concrete action was, therefore, urgently called for, obviously, for two reasons, viz. (i) to set the Air transport on a stronger plank and, (ii) to make co-ordination of future plans of development possible. This led ultimately the Government to conclude that the undertaking of the existing Air Companies

<sup>1</sup> *House of People Debates*, 20th April, 1953 Cols. 4632-3.

should be acquired by the Government and "entrusted to the new units of operation". Critics might say that 90% of the difficulties of the new units "had their origin in the haste with which nationalisation was ushered in".<sup>1</sup> But this is an uncharitable remark. It is common knowledge that any change in economic structure poses problems of reorganisation and co-ordination in both technical and administrative matters and many technicalities involved in the process might initially put the nationalised industry into some difficulty but that being inevitable calls for no comment providing misgivings to the common man. Air transport is a technical operation and needs a rapid development and this can only be possible when the State assumes control and responsibility, as the enormous financial risks inhibit the private sector from acting here. There are further overriding national interests to provide efficient and low-cost service to the people. "Air transport is a public utility", said Shri Jagjivan Ram, "and ought to be developed in the national interest unhampered by the paramount necessity of making a profit which would be the overwhelming consideration in the private enterprise".<sup>2</sup> It is a pity that the private sector in the air industry did not take the nationalisation move in its true spirit and lost no time to design towards selfish gains through means that cannot be called fair, which fact is clearly expressed in the words of Shri Sankar Prasad—"the time-lag between the decision to nationalise and the actual legislation by Parliament created conditions in which many unhealthy practices crept in".<sup>3</sup>

Nationalisation of airlines was considered not so much for the financial weakness of the private institutions but due to the necessity of a rapid expansion and development of the industry by introducing modern techniques, replacing outmoded aircraft in keeping with the developed countries, and this is in larger interests of the society. Truly, the pre-nationalisation state of Air Companies, with the exception of a few, was that they were running at a loss despite substantial subsidies from the Govern-

<sup>1</sup> Article in *The Statesman, Calcutta*, dt. 12. 12. 57 under caption "*I.A.C's New General Manager*".

<sup>2</sup> *House of People Debates*, Ibid Col. 4635.

<sup>3</sup> Article—"Indian Airlines Corporation" in *The Indian Journal of Public Administration*, Jan.—March, 1956 p. 48.

ment by means of concession on aviation spirit of about Rs. 52 lakhs per year. But this financial embarrassment is not peculiar to the Indian cases alone as in the other countries also air transport did not enjoy a very gainful position as Britain's three State-owned airlines had cost the tax-payer more than £11 millions, in 1947-48. Similarly, "Trans-Canada Airlines showed deficit of more than \$ 1 million in 1946. During the same year 10 out of the 20 internal Air line operators in the U.S.A. worked at a loss including the experienced T.W.A., whose budget was down by nearly \$ 4 millions. And whereas domestic operators in the U.S.A. showed a profit of \$ 30 millions in 1945 and \$ 4 millions in 1946 they lost \$ 5 millions in 1947".<sup>1</sup> For the purpose of tiding over this problem in Britain, for three years or more, the British Government was prepared "to subsidise its Airways at the rate of £ 8 millions a year". No doubt the pecuniary difficulties of the Air companies that were often a cause for embarrassment to the Government contributed to the nationalisation of the Air lines in India but it was not however, the sole cause. The Gorwala Committee did not favour nationalisation of the Airlines and discarded it almost in unequivocal terms, and observed that "the fact that the industry is now working at a loss and requires a certain amount of assistance from the Government cannot by itself be construed as an argument for nationalisation",<sup>2</sup> and commented also in Para 360 of the Report, "We thus consider that there is not sufficient justification to break away from the present set up...we have every hope that with real effort on the part of the industry and a reasonable amount of assistance from Government, the operating companies will be able to make good the deficiencies".

But the financial weakness of the Air Companies was never highlighted in support of nationalisation.<sup>3</sup> Neither was the inefficiency of the private sector advanced as a cause. On the contrary, undiluted praise was showered on the achievement of some private companies, and particularly the Air India International which was admired as to have "gained an enviable

<sup>1</sup> *The Statesman, Calcutta*, Editorial Note "Profit and Loss in the Air", November 21, 1948.

<sup>2</sup> *The Air Transport Inquiry Report*, 1950 para 359.

<sup>3</sup> Gidwani B. S.,—*History of Air Transport*, 1954, p. 111.



reputation for its external operation *par excellence*.”<sup>1</sup> The emphasis on nationalisation actually resulted from the unprecedented development during the Second World War in respect of routes, operational extension, increased consumers’ preference for use of air transport and technological advancement of the Western countries. All this generated an urge for reorganising the Indian air transport industry for forging its development. This naturally called for large scale scrapping of the old, outmoded aircrafts under use in India and replacing them by modern aircrafts of greater speed and developed techniques, which involved a consequential heavy initial capital outlay that could not be provided by the financially tottering private sector. Moreover, in social interest airlines require to be extended to the distant areas of sparse population where absence of immediate commercial gain inhibits the private sector from making any adventure.

A question might be put whether the private sector could be allowed to operate with the aids and subsidies and tax-concessions granted by the Government rather than nationalising the industry outright. It is no doubt a pertinent question. But imagine the volume of the State’s burden to keep up a private industry crowded by the heterogeneous elements as the matter is not only complicated but a constant source of drainage of public exchequer without corresponding benefit to the nation. The experience of the Government with this industry in the past was not at all encouraging as to urge a rethinking about leaving it still in the private hands. Indeed, the Government acted prudently to come to “the conclusion that the unit of operation should be owned by the State, more so, when the State has to find the money required for replacement of aircrafts and also for future development of the industry”. There is hardly any doubt, observes Shri B. S. Gidwani, “that nationalisation of Air transport is the only possible move open to the Government of India for ensuring sound development of civil aviation in the country. Apart from the fact that the Airlines, left to themselves should not have been able to accomplish their fleet replacement programme, there were several other weighty

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<sup>1</sup> Speech by Mr. Jagjivan Ram on Air Corporations Bill—*House of People Debates* dt. 20. 4. 53., cols. 4631-32.

considerations which render nationalisation an exceedingly welcome step".<sup>1</sup> One should recall in this context the scheme of development set out by Sir Fredrick Tymmes, the then Director of Civil Aviation, even before the nationalisation that contributed much to the development of air industry.

The Air Corporations Act provided for the establishment of two corporations—one for internal air services and another for external services operations, under the names, Indian Airlines Corporation and Air India International, respectively. The House was sharply divided on the issue of two corporations while debating the Bill. No less a person than Dr. Shyama Prasad Mookerjee, along with a number of others, disagreed on the issue of setting up two corporations for an industry, as according to them, the measure would be uneconomic, wasteful and complicated. It was also argued that India should not follow blindly the British practice where the two corporations namely, the British European Airways Corporation and the British Overseas Airways Corporation function. On the other side, Mr. Tulsidas Kilachand, the then President of Air Services of India, observed, "I do not think that the economy which is expected to be achieved by having one Corporation would weigh to the extent as other questions weigh with regard to having two corporations".<sup>2</sup> In the same spirit Mr. Jagjivan Ram winded up the matter observing that "in the interest of all these things, the internal corporation should be kept aloof from the international corporation and the internal corporation should not be mingled with the international corporation".<sup>3</sup> The Estimates Committee, however, recommended in favour of a common corporation for both internal and external Air services,<sup>4</sup> estimating thereby a saving of Rs. 6 lakhs a year. But the matter may be punctuated by doubts.

<sup>1</sup> *Ibid* p. 115 See also, Captain Mustafa Anwar—*Civil Aviation in India*, 1954, pp. 132-33..

<sup>2</sup> *Debates*, *Ibid* col. 4737.

<sup>3</sup> *Ibid* col. 4801.

<sup>4</sup> 41st Report, 1956-57 para 33. See Chapter II for discussion on the advisability of a common Corporation.

## The Reserve Bank of India

In the sphere of finance, the first nationalised institution in India happens to be the Reserve Bank of India which was originally set up in 1935 as a private institution. Reserve Bank of India had been functioning as the Central Bank of the country and the Reserve Bank of India Act of 1935 practically clothed the institution with all the characteristics of a Central Bank, though the share holdings were extended to the public, and in this sense only it was not a public institution. During the early forties the holding of shares tended to become concentrated in a few hands<sup>1</sup> and this was viewed with considerable degree of apprehension that the important functions of a Central Bank were going to be under the control of the private sector, to the detriment of monetary policy of the Government. But the idea of nationalisation vacillated much and took no concrete shape until September 1948 when the Reserve Bank (Transfer to Public Ownership) Act, 1948, was passed and the Government bought out the interest of the private shareholders. Speaking generally, the nationalisation of Reserve Bank has brought little change save the ousting of private shareholders, but it is significant in the sense that Reserve Bank is now not only the Central Bank but is an important organ in the formulation of money and credit policies within the frame-work of the objectives of national planning and ideals of the country being no more interrupted or guided by the private interests. Further, the Reserve Bank in its new transformation has been given wide powers of regulating the banking system of the country and the Banking Act of 1949 is a significant legislation to have empowered the Bank with general authority to frame rules for the purposes of the Act and control lending policies of commercial banks and supply of credit. It has now the superintendence over all banks in the country. The status of the Reserve Bank was aptly indicated by Shri T. T. Krishnamachari, the then Minister of Finance, who said, "It is my intention that the Reserve Bank should remain a banker's bank, that it should be the eyes and ears of the Government of India, that it should be the top-most financial institution in this country, controlling practically every movement

<sup>1</sup> Basu S. K. Dr.—*Recent Banking Developments*, 1951, p. 94.

in finance and that it should be divested of what might be called the day-to-day banking work. It is my intention to make the Reserve Bank, the supreme adviser to Government in all matters of money, credit and banking".<sup>1</sup> It will be seen that many commercial functions which were originally carried on by the Reserve Bank of India, have gradually been transferred to the State Bank of India. The justifiability of the nationalisation of this topmost bank of the country can be traced to the developmental policies of the Government of India which can best be achieved when the financial system is directly under the State control. The nationalisation has, so to say, effected only a *de jure* recognition of a *de facto* state of affairs as *ipso facto* the Bank was already recognised as a Government controlled constitution in its functions as a Central Bank, although institutionally it was a private concern. The change is, however, felt in the ready acceptance and implementation of the State policies by the Bank without a sordid procedure of passing through the Board's meetings. It was embodied in the statement of Objects and Reasons that the Act was passed "in order to implement the Government policy that the Bank should function as a State-owned institution and to meet the general desire that the control over the Bank's activities should be extended to ensure a greater co-ordination of the monetary, economic and financial policies"<sup>2</sup> The Central Bank of the country has a stupendous responsibility in the financial matters and credit control and "if the Central Bank is to control credit effectively, it should have control over all forms of commercial, financial and productive credit."<sup>3</sup> Nevertheless, any amount of legislative behest or abstract formulae can do little in furthering the purpose of the Central Bank as it depends "upon the men whose business will be to run the machine than on any legal formula",<sup>4</sup> and the motive of public interest should be the guiding factor of a Central Bank. The discharge of the functions of the Central Bank calls for specialised training of personnel rather than "any more gadgets

<sup>1</sup> Quoted in *the Statesman*, Calcutta, 27th May, 1957, under "Banking and Finance" Column.

<sup>2</sup> *Gazette of India*, August 14, 1948.

<sup>3</sup> Dr. S. N. Sen : *Central Banking in Underdeveloped Money Markets*, p. 207.

<sup>4</sup> Dr. S. N. Sen : *Ibid* pp. 241-42.

of control", as the exigencies of circumstances and not a steady formula will determine the course of action which sometimes may require to be channelised in different ways.

### State Bank of India

In the annals of public corporations, next comes the State Bank of India that came into being in 1955, as a result of nationalisation of Imperial Bank of India. The Imperial Bank formed in 1921 by an amalgamation of the three Presidency Banks of Bengal, Bombay and Madras, was a stalwart institution to further the purposes of "Imperialist power" and its operations were more restricted to the British interests than catered for indigenous economic growth. During the British regime the Imperial Bank was acting as the agent of the Reserve Bank at those places where the Reserve Bank had no branch, and in this aspect the Imperial Bank held a position very different from that of other commercial banks. The nationalisation of Imperial Bank heralds a new era in the Indian banking. The nationalisation of the Imperial Bank can be traced to the recommendation of the Committee of Direction of the All-India Rural Credit Survey, 1951, which had suggested in its Report published in 1954, *inter alia*, the creation of "one strong integrated State-partnered commercial banking institution with an effective machinery of branches over the whole country for stimulating banking development by providing vastly extended remittance facilities for co-operative and other banks and following a policy which would be in effective consonance with national policies adopted by Government without departing from the canons of sound business". The Finance Minister announced on the 20th December, 1954 to assume effective control over the Imperial Bank of India and this was the first step towards the formation of the State Bank of India. The announcement of the Finance Minister, however, put the cat among the pegions and in a well-attended shareholders' meeting of the Imperial Bank at Bombay on 31st March, 1955, Sir Vithal Chandravarkar, President of the Local Board, who was in the Chair, eulogised the rôle played by the Imperial Bank and a unanimous resolution denounced the decision of the Government which, it said, would be well advised to create a separate State-aided bank to provide agricultural

credit and assist co-operative banking rather than nationalising the Institution.<sup>1</sup>

The recommendations of the All India Rural Credit Survey Committee no doubt hastened the fulfilment of a long-felt need and the Imperial Bank was nationalised and christened to the new name of State Bank of India. The policy of its nationalisation was announced for the first time in 1948 by the first Finance Minister.<sup>2</sup> Indeed, "the organisation of rural credit has been regarded as the cinderella of the money market",<sup>3</sup> and the commercial banks proved loath in extending their operations to the rural areas due to slender commercial prospects. But the need for rural credit in India refuses to be ignored at least for awakening of the agrarian "debt-slaves"<sup>4</sup> now dozing under the lullaby of the malevolent village usurers. Shri A. C. Guha, the Minister, declared the purpose of nationalisation of Imperial Bank as "to re-create our rural life, to vitalise and to strengthen our peasantry and to rejuvenate the rural areas."<sup>5</sup>

The process is, however, indirect as the Government has brought into existence the State Bank of India which took over the Imperial Bank and in this process the Imperial Bank was brought under state ownership and control.

Harsh words were used in Parliament against the Imperial Bank, characterising it as enemy No. 1 to have served only the British finance and attempted "to stifle the growth of Indian commerce and industry and to keep India in a state of planned backwardness as hewers of wood and drawers of water."<sup>6</sup> Though most of these charges were wrong, the Bank did not, of course, follow the policy of a faster rate of expansion of branches, especially in the rural areas as was needed in the interest of Banking development. The nationalisation of the Imperial Bank and the resultant birth of the State Bank of India was, however, welcomed.

<sup>1</sup> See *Eastern Economist*, 15th April, 1955 p. 634.

<sup>2</sup> Dr. S. K. Basu *Op. cit.*, p. 441.

<sup>3</sup> Dr. S. N. Sen—*op. cit.*, p. 215.

<sup>4</sup> *Lok Sabha Debates* dt. 23. 4. 55 col. 6119.

<sup>5</sup> *Lok Sabha Debates* dt. 23. 4. 55 col. 6129.

<sup>6</sup> Speeches by Mr. B. Das and Mr. H. N. Mukherjee—*Lok Sabha Debates* Ibid Col. 6131 and 6136.

## Life Insurance Corporation of India

Nationalisation of life insurance business in India immediately followed the establishment of the State Bank of India, and in 1956 Life Insurance Corporation of India was established to take over the nationalised life insurance business. Here the nationalisation did not pass through ordinary procedure and Parliamentary statute but by an Ordinance promulgated on January 19, 1956, and this process of nationalisation through an executive action shutting out Parliament, was characterised as coming "like a thief"<sup>1</sup> and came under scathing criticism when the Life Insurance Corporation Bill was piloted by Dr. C. D. Deshmukh, the then Finance Minister. The nationalisation can be directly attributed to malpractices of some private institutions and no measure of regulation and control was considered as an effective "hedge which could not be jumped over by those in the insurance field who put public funds to misapplication". In piloting the Life Insurance Corporation Bill, Dr. Deshmukh observed, "the industry was not playing the rôle expected of insurance in a modern State, and efforts at improving the standard by further legislation, we feel, were unlikely to be any more successful than in the past".<sup>2</sup> Life Insurance is a social necessity and indeed, there should be no insidious play over the insurance funds, which is a trust, by the private sector in quest of its self-interest. Further, the message of life insurance should be as wide as possible and go "beyond the more advanced urban areas and hitherto neglected rural areas". The matter of life insurance nationalisation, however, hinges on the exigencies of circumstances that prompted the Government to nationalise through Ordinance. But it would be wrong to suggest that the Government suddenly swooped upon the private sector to swallow it, because the ideas of nationalisation was under discussion so long that when it came "it had the appearance of an established fact."<sup>3</sup> But the prudence of nationalising by Ordinance rather than through Parliamentary process lies in shackling the private insurers against their further carrying on the cryptic designs of misapplying the funds

<sup>1</sup> *The Eastern Economist* Vol. 26 January 27, 1956 p. 121.

<sup>2</sup> *Lok Sabha Debate* Vol. 1 1956 col. 1139.

<sup>3</sup> *Capital*, vol. 136 dt. 26th January, 1956 p. 109.

during the time-lag between the presentation of the Bill and the passing of it by Parliament, had the nationalisation taken place, through ordinary Parliamentary procedure.<sup>1</sup> The measure signifies a unique achievement of the Government of India through the able Finance Minister Dr. C. D. Deshmukh.

"Nationalisation of life insurance provided one of the most effective means of inter-penetration between the public sector and the private sector", said Shri Ashoke Mehta.<sup>2</sup> In the same vein, Shri Feroze Gandhi opined, "our objective is to achieve socialist society. I think nationalisation of life insurance is a step and a bold step in that direction",<sup>3</sup> while a communist leader Shri Sadhan Gupta, in welcoming the measure, said, "if you do away with bureaucracy, if you introduce an efficient and flexible administration without red-tape, nationalisation will be a success, not only be a success but will be a great asset to the nation".<sup>4</sup> All this goes to suggest that life insurance nationalisation received warm welcome. Life insurance nationalisation should never be construed as a doctrinaire socialism. The apprehension expressed in this context that "the private sector will soon find itself cribbed, confined and cabined, though technically speaking, it may have all the freedom to fly where it wants",<sup>5</sup> is but a fantastic thinking as the avowed policy of the Government is not to disturb the private sector unless special exigency of circumstances so warrants.

### Central Warehousing Corporation

In 1956 another public corporation, namely, Central Warehousing Corporation was set up, directly resulting from the recommendation of the All India Rural Credit Survey Committee. There are two organs under the Act. The National Co-operative Development and Warehousing Board is to deal with policy matters and to advance finance to the other organ, the Central Warehousing Corporation and also to the State. The operations are twin, one is discharged by the State Governments in so far

<sup>1</sup> Cf. *Shankar Prasad* in case of Airlines Loc. cit. p. 48.

<sup>2</sup> *Lok Sabha debate* Ibid col. 1316.

<sup>3</sup> *Ibid* col. 1350.

<sup>4</sup> *Ibid* col. 1160.

<sup>5</sup> *Commerce*, 28th Jany. 1956 p. 154.



as co-operative marketing and co-operative processing are concerned, and the other by the Central Warehousing Corporation relating to the warehousing and storage. •

The object of setting up of the Central Warehousing Corporation is to facilitate storages, processing and marketing of agricultural produce through the active participation of primary co-operative societies and co-operative marketing societies. The absence of storage facility and the farmers' financial weakness due to usurious borrowings from the ruthless village money-lenders were great "hindrances of agrarian economy of the country, and this scheme is designed to imbibe a new enthusiasm in the tillers of the soil to enable them to produce and obtain a fair price for the produce". The Central Warehousing Corporation assures immense possibilities in the agrarian sector of economy and to bring about a refreshing change in the pattern of rural credit of the country and ensure a sound development of co-operative system for an all round rural uplift.

### **Oil and Natural Gas Commission**

The recently constituted Oil and Natural Gas Commission is the latest addition to the frame of public corporation in India. The emergence of this corporation definitely bears testimony to the preference for this new institutional device to departmentalism, as in it a departmental organisation founded in 1948 has found way to the form of a public corporation in order to possess "more elasticity, greater autonomy and less of control which is the usual way with the routine functioning of Government."<sup>1</sup> The Commission is set up to explore the oil regions of the country. The recent discovery of a new Oilfield at Cambay and Naharkatiya with the largest potentialities amongst those so far discovered in the public sector is an instance of the activities of the Oil and Natural Gas Commission working in collaboration with the Soviet and Rumanian experts. In the national interest the exploration of oil is given over to the public sector under the management of a statutory corporation. The Commission has an undoubted responsibility to function in a

<sup>1</sup> *Lok Sabha Debates* August, 12, 1959 col. 2100.

most important segment of national economy, as the need of natural oil in India is too hard to ignore and inhibiting factors inherent in the departmental management could but hinder the progress.

The trend of expansion of public sector either by nationalising the private institutions or sponsoring public undertakings, clearly signifies that the country is already throbbing with a new life and spirit in which the State has assumed a larger role in economic activities and in the years ahead the public sector is bound to make much headway for economic, political and social reasons. The justifiability of expansion of public enterprise would, however, rest on the efficient conduct of the undertakings in consonance with the avowed objectives of the nation.

### ANNEXURE "A"

#### List of Public Corporations in India.

##### *Pre—1947*

1. Bombay Port Trust, Bombay.
2. Calcutta Port Commission, Calcutta.
3. Madras Port Trust, Madras.

##### *After 1947*

<i>Name</i>	<i>Year of Establishment.</i>	<i>Capital Structure as on date shown (In Crores of Rs.)<sup>1</sup></i>
1. Damodar Valley Corporation (DVC). Calcutta.	1948	Capital supplied by the Participating Governments as on 31.3.60., 142.92.
2. Industrial Finance Corporation of India, (IFC). New Delhi.	1948	Paid-up Capital, 5.00. Working Capital as on 30.12.61., <sup>2</sup> 61.39.

<sup>1</sup> Source : Government of India—*Principal Public Industrial Undertakings in India*, March 1960. Respective Annual Reports of the Corporations.

<sup>2</sup> The I.F.C. Brochure, 1962 p. 17.

## ANNEXURE "A"—(Contd.)

<i>Name</i>	<i>Year of Establishment.</i>	<i>Capital Structure as on date shown (In Crores of Rs.)<sup>1</sup></i>
3. Rehabilitation Finance Administration, (RFA) New Delhi.	1948 <sup>1</sup>	No definite provision for paid-up capital. Government Borrowing (including interest) stands at net figure as on 31.12.59., 8.07.
4. Employees' State Insurance Corporation, (ESIC) New Delhi.	1948 <sup>2</sup>	No provision for paid-up Capital. Total Capital including profits as on 31.3.59., 14.65.
5. Reserve Bank of India, Bombay.	1948 <sup>3</sup>	Paid-up Capital, 5.00.
6. Indian Airlines Corporation, (IAC). New Delhi.	1953	Funds from Government as on 31.3.61., 16.95.
7. Air India International, (AII). Bombay.	1953 <sup>4</sup>	Equity Capital & Loan Capital from Government as on 31.3.61., 18.25. Working Capital as on 31.3.61., 28.35.
8. State Bank of India, Bombay.	1955 <sup>5</sup>	Paid-up Capital as on 31.3.60., 5.62.
9. Central Warehousing Corporation, (CWC). New Delhi.	1956	Paid-up Capital as on 31.3.60., 1.78.

<sup>1</sup> The R.F.A. is now in the process of winding up.

<sup>2</sup> The Scheme took effect from February, 1952.

<sup>3</sup> It was originally a private shareholders' Bank established in 1935 and was nationalised in 1948.

<sup>4</sup> The name has now been changed to "Air India" pursuant to Section 7(1) of the Air Corporations (Amendment) Act, 1962.

<sup>5</sup> The new name of the nationalised Imperial Bank of India.

## ANNEXURE "A"—(Contd.)

<i>Name</i>	<i>Year of Establishment.</i>	<i>Capital Structure as on date shown (In Crores of Rs.)<sup>1</sup></i>
10. Life Insurance Corporation of India, (LIC) Bombay.	1956	Paid-up Capital, 5.00. Life Fund as on 31.12.61., <sup>1</sup> 631.59.
11. The Oil & Natural Gas Commission, (ONGC). Dehra Dun.	1959 (Sept.)	Grant from Government from October 15, 1959 to March 31, 1960., 5.55. <sup>2</sup>

<sup>1</sup> The Chairman's (Shri B. K. Kaul, I.C.S.) Statement at 75th Meeting of the L.I.C. on 27.8.62.—See *the Statesman*, Calcutta Aug. 31, 1962.

<sup>2</sup> The undertaking was converted into a statutory body with effect from 15.10.59 and out of budget grant for 1959-60, the Commission had to surrender the unspent balance as on 14.10.59 and got a supplementary grant of Rs. 5.55 Crores for the balance period of the year.

## CHAPTER II

### *PROBLEM OF ORGANISATION—CHOICE OF PATTERN*

#### **Choice of Pattern : A Problem**

The public sector in India finds itself in a labyrinth of various structural forms each claiming its supremacy over the other in one or the other way and the choice of pattern poses a problem. The institution of public corporation as the latest innovation in Applied Economics may be said to be in an experimental stage in India. Mere nationalisation of an undertaking cannot by itself ensure its successful working,<sup>1</sup> and determination of the right type of organisation suited to the particular nature of undertaking is an absolute necessity. In determining the forms of organisation for the public sector in India, internal stocktaking is essential as the ideas of the developed countries may not sometimes be transplanted with profitable results. An underdeveloped country must inevitably look to the developed countries for ideas<sup>2</sup> but a caution needs be exercised against thoughtless imitation of structural organisation of the developed countries as it may otherwise precipitate almost irreparable damage on the public sector itself, and public opprobrium might be too frequent. The present economic structure needs be moulded and fashioned to achieve the objectives of the public sector, and an organisational type should, therefore, be evolved to suit the nature of the enterprise.

Unlike in the West, the countries in the E.C.A.F.E. region have introduced various types of organisation and each type requires proper analysis and scrutiny to justify its suitability for the undertaking and denote the degree of its importance in the public sector as well as its influence over the national

<sup>1</sup> Robson W.A.—Op. cit. p. 91.

<sup>2</sup> Hanson A.H.—Op. cit. p. 336.

economy. Forms of organisation are liable to vary in different countries according to the nature and functions of enterprises under public ownership. In the less developed countries the growth of the public sector being a case of necessity for the economic uplift, experimentation of different types of organisation is bound to follow before an opinion could be expressed in favour of a particular type or types. Relative merits of alternative forms of organisation are not easy to judge. Various factors involved in an organisation tend to vitiate any steady opinion on it as, in practical working, each type of organisation will have seen certain problems. But the problems are not so formidable as they appear to be. India has to introduce such types of economic institution in the public sector as they are suited to her peculiar circumstances.

Economists and Statesmen of different countries have been thinking about the suitable types of organisation in the nationalised sector of economy. But the final answer is yet to come, and admittedly, there can be no finality of the matter as the opinion is bound to swing from one side to the other under different phases of economic and political conditions of the country. An under-developed country has, therefore, to learn from experience of the developed countries as well as by trial and error. In Britain, the views prevail from "direct control" of the enterprises by Government departments, as advocated by the Fabians, to "workers' management" of industries conceived by the Syndicalists. The middle path is found in the modified version advanced by the Guild socialists in which "the participation of the State would take place through its partnership within an industrial Guilds Congress". But none of these views prevailed for application in the nationalised industries in the U.K., and instead, a new form of organisation has been introduced for a successful "combination of public ownership, public responsibility and business management for public ends".<sup>1</sup> This form known as "public Corporation" is now the dominant feature in the public sector of the Western countries. In the U.S.A., the most illuminating public corporation is the Tennessee Valley Authority. President Roosevelt characterised the T.V.A.

<sup>1</sup> Herbert Morrison : *Socialisation and Transport* p. 149.

as a public corporation *par excellence* and modelled it as “a corporation clothed with the powers of Government but possessed of the flexibility and initiative of a private enterprise”.<sup>1</sup> In these words lie really the form and spirit of an organisation in the public sector. An enterprise needs initiative, imagination and drive, and flexibility of operation is the condition for its success. A form of organisation that falls short of this enunciation should certainly be discarded as unsuitable. “Admittedly, Western opinion has run fairly strongly in favour of the public corporation, on the grounds that it provides just the right combination of commercial freedom and Government control”.<sup>2</sup>

### Choice of Pattern in Underdeveloped Economy

The conception of public ownership in the under-developed region in the Asian countries is very recently developed and no overwhelming importance has been laid upon any particular type of organisation in this region, and various forms of organisation are introduced in different enterprises. But the pattern must conform to the class or nature of enterprise, and the classification of enterprise is, therefore, the condition precedent for evolving appropriate patterns. Public undertakings in India may be broadly classified into the following groups :—

- (a) Public utilities and social services,
- (b) Industrial and Trading Institutions, and
- (c) Non-industrial and non-trading organisations.

The “classic” field of public enterprises which in the pre-independence period was confined to public utilities, transport, power and water resources has given way to its larger extension to major industries, multi-purpose projects, insurance, finance and trading in commodities. This extension of public ownership calls for wise choice of pattern and forms of management for different enterprises.

The Seminar on “Organisation and Administration of Public Enterprises in the Industrial Field” held in Rangoon in

<sup>1</sup> Message to the Congress (U.S.A.) on the 10th April, 1933 on the T.V.A. Bill.

<sup>2</sup> Hanson A. H. : Op. cit. p. 337.

March 1954, under the auspices of the Economic Commission for Asia and the Far East,<sup>1</sup> the United Nations, noted that in the ECAFE region the forms of organisation in the public sector were held to be mainly,

- (i) Organisations managed on Government departmental lines,
- (ii) Organisations managed by a Board or Committee,
- (iii) Public Corporations,
- (iv) Mixed-ownership Corporations.

The organisations of the Indian enterprises are also similar.

### Departmental Management

Departmental management can be said to be the oldest form of the "line and staff" organisation. This type, in the earliest process of nationalisation, was introduced in Posts and Telegraphs, National Railways, Highways and Communications, Defence industries and some public utility services. An analytical study of the undertakings under departmental management will reveal that this type was favourably chosen for those activities that were either yielding revenue to the Government or considered strategically important. Departmental management is still recommended for defence industries.<sup>2</sup> In India, the ordnance factories set up in different parts of the country are under departmental management with the only deviation noticeable in the case of the Bharat Electronics Limited, which has been given the company type of management. Exclusive Government control of defence industries has, however, been viewed with disfavour, and the Estimates Committee in its 54th Report has brought out the facts that in the U.S.A. and to some extent in the U.K., private enterprise is also actively associated with the manufacture of Defence equipments,<sup>3</sup> and they also recommended

<sup>1</sup> Seminar Paper No. 22, also see Seminar Paper No. 81 issued in connection with the U.N. Seminar on Management of Public Enterprises in the ECAFE region, New Delhi, December, 1959.

<sup>2</sup> Gorwala A. D. : *Report on the Efficient Conduct of State Enterprises* 1951 p. 14.

<sup>3</sup> Para 2.



in another Report such active association of the private sector in defence industries in India.<sup>1</sup> This recommendation has been partially accepted by the Government and the Defence Production Planning Committee has been examining "the nature and extent of assistance which the private sector can provide for the purposes".<sup>2</sup> It is also pertinent to note that the Baldev Singh Committee that submitted its Report in December, 1954, discarded the departmental control of defence industries altogether and recommended the company form of management for the defence production on the lines of the nationalised industries.<sup>3</sup>

Departmental pattern is mainly brought under criticism on grounds of its bureaucratic control, inflexibility of operation, insensitivity to consumers' needs and being synonymous with red-tape.<sup>4</sup> The routine aspect of its working "against the background of the rules, regulations and procedure inseparable from ordinary administration" is an inherent weakness of departmentalism which breeds disincentiveness. The executives bereft of the power of exercising initiative find little opportunity to grow to a stature and the resultant frustration tempts them to settle down as mere cogs in a huge machine. The trend of thought now has definitely swung to some other type of organisation, and departmental pattern is, therefore, visibly on the decline. "Like private agency", observes Shri A.D. Gorwala, "departmental management must be the rare exception, not the general rule. In many ways it is the direct negation of the requirements of autonomy".<sup>5</sup> In Great Britain the Atomic Energy was under direct departmental control, but under the Atomic Energy Authority Act, 1954, it has been brought under autonomous management pattern. In Japan also State enterprises run departmentally are often considered a synonym for inefficiency.<sup>6</sup> In India, the dissatisfaction over departmental

<sup>1</sup> 68th Report 1956-57 paras 104 and 105.

<sup>2</sup> Estimates Committee 56th Report (2nd Lok Sabha) Serial No. 53.

<sup>3</sup> Estimates Committee 54th Report (56-57) para 13.

<sup>4</sup> U. N. Seminar, New Delhi, Paper No. 81 p. 7.

<sup>5</sup> Op. cit. p. 13.

<sup>6</sup> Shiro Okabe—"Public Corporation in Japan" in *Indian Journal of Public Administration*. Jan.—March, 1950. p. 222.

management is well demonstrated in the conversion of the Oil and Natural Gas Commission from departmental management to a Statutory Corporation.

Despite shortcomings, departmental pattern has got creditable performance in some particular fields in India as well as in other countries. For example, the Swiss Posts Office is an efficient departmental undertaking, which also operates transport system in mountain villages.<sup>1</sup> In India postal system has a good record of service. All India Radio run departmentally has been praised by prof. Robson<sup>2</sup> as being free from political interference in its broadcasting programmes, though some Indian writers do not share his view.<sup>3</sup> It is now argued that departmental management in the strict sense of the term is not, however, found in the practical field,<sup>4</sup> inasmuch as many State enterprises in India, although technically under departmental management, are practically run by the appointed Boards. For example, the Railway Board are managing the Railway organisation in India, the Defence Production Board function in the defence industries and the Posts & Telegraphs Board are there in the postal organisation, and so on. But these Boards enjoy in no way the autonomy that an independent Board should enjoy in practice, and Dr. Paranjape's observation made on the Railway Board that it has been "relegated to the status of a subordinate executive body rather than a supreme policy-making body"<sup>5</sup> is pertinent and also applicable to the other Boards. Of late, there has been a change in the outlook of the Government towards making the Boards more strong, and it is happy to note that an autonomous Board has now been introduced in the Posts & Telegraphs Department, as dissatisfaction over "insufficient delegation of powers" to the former Board was felt too much.

Despite various criticisms against departmentalisation, the system has, however, strong ground to function in some under-

<sup>1</sup> Robson W. A. : "*The Forms and Directions of Public Enterprises*" in *Indian Journal of Pub. Adm.* Jan.—March. 1950. p. 19.

<sup>2</sup> Loc cit., p. 19.

<sup>3</sup> Dr. H. K. Paranjape—*Organisation of State Enterprise in India* in *Indian Economic Journal* Oct. 1954, Vol. II p. 133.

<sup>4</sup> Dr. H. K. Paranjape Loc cit., p. 131.

<sup>5</sup> Loc cit., p. 132.

takings for obvious reasons. These may be enumerated as defence industries where strategic reasons play a vital part, extractive industries of national importance for their careful operation avoiding waste, and in respect of scarcity materials and foodgrains for a judicious allocation amongst the consumers. Flexibility of operations on commercial lines is the crying need and as Prof. Dimock said, "if sufficient improvements could be made among the departments in the direction of greater autonomy and flexibility, there would be little or no justification for Government Corporation at all."<sup>1</sup> In his recent book, Mr Hanson has sounded a note of interrogation whether the form of public corporation has actually preserved built-in safeguards of autonomy of operation or some other form should be devised.<sup>2</sup> In fact, it is the spirit and not the form that matters in a public enterprise. But experience has shown that "a passion for uniformity is one of the characteristics of bureaucratic administration," and if departmentalisation is attempted in a public sector, major modifications, reformations and innovations would be needed, which can hardly be achieved because of the deep-rooted rigidity of the system. These shackling features of departmentalism tend to buttress the need for some other innovation in the public sector.

This innovation is now manifest in the institution of public corporation which has been conceived as having "a high degree of freedom, boldness and enterprise in the management of undertakings of an industrial or commercial character and the desire to escape from the caution and circumspection which is considered typical of government departments."<sup>3</sup> But the institution of public corporation which has solely gained ground in nationalised industries in Great Britain has not been solely conceived for Indian public enterprise. There is the dichotomy of innovations in the forms of companies and public corporations. Besides, there is also a half-way house in the form of Control Boards.

<sup>1</sup> Prof. M. E. Dimock : *Government Corporation—a Focus of Policy and Administration in American Political Science Review* Vol. XLIII No. 5, Dec. 1949 p. 1163.

<sup>2</sup> *Parliament and Public Ownership*, 1961 p. 218-9.

<sup>3</sup> Robson W. A.—*Nationalised Industry and Public Ownership*, 1960 p. 47.

## Diverse Patterns

India has elected to introduce autonomous management pattern in the field of public enterprise. But the forms of autonomous management have been different for the different nature of undertakings. Practically, all the river valley projects in India except the Damodar Valley Project, are under the management and control of special Boards created by the Cabinet Resolutions in each case. As for example, the Bhakra Control Board was set up according to a Resolution of the Government of India in September, 1950, the Hirakud Control Board by a Resolution in March 1957 and so on. The Damodar Valley Project which is also an inter-State river valley project has been given an autonomous management pattern through a Public Corporation, namely, the Damodar Valley Corporation, created under parliamentary statute in 1948, modelled on the Tennessee Valley Authority. The reason why the Damodar Valley Project has been singled out for a management pattern different from that prevailing in other river valley projects is not understandable. It appears, however, that the Damodar Valley Corporation, a pioneer public corporation introduced in the economic system of India, is largely conceived as an experimental measure for inter-State river valley project "in conscious imitation of the American Tennessee Valley Authority". The creation of the Boards by executive Resolutions is no doubt easier than the establishment of a public corporation which is *a priori* a creature of Parliament. While the advantages contemplated in the Control Board lie in quick decision in regard to expenditure, it can hardly be denied, however, that the control being in the hands of the Ministry and Government officials that constitute the Board, the result is often that the departmental pattern surreptitiously infiltrates into the system, and the shortcomings and defects of departmental pattern are bound to be felt. India has this type of inter-Ministerial Boards in the river valley schemes. In all Boards either the Chief Minister or the Governor of the State concerned is the Chairman, and the Secretary to the Ministry of Finance, Government of India, is one of the members and other members are generally the Chairman of the Central Water & Power Commission, the Finance Secretary to the State concerned and the Chief Engineer of the

Project. The Vice-Chairmanship has been given to the Secretary to the Government of India, Ministry of Irrigation and Power, as in the cases of Bhakra Nangal Control Board and the Hirakud Control Board. Thus, it is evident that the Boards are composed of the Government officials and these officials working within a bureaucratic frame of administration can hardly achieve flexibility of operations. India is, however, no solitary example of having such Control Committees. In Asian countries, this type is also found in Burma, e.g. the Spinning and Weaving Factory Board, the Tile Factory Board, the Paper and Chemical Industries Board ; in Thailand, such as Thai Airway Company. But in the under-developed region the establishment of this type of Control Boards is no longer favoured as this type has a departmental bias and the need for some other type of organisation with free and flexible management is being increasingly felt.

### **Forms of Company—Corporation Controversy**

A conspicuous feature in the Indian public enterprises is the introduction of company type of management in the manufacturing units. It appears that a clear distinction has been made by the authorities between the enterprises which are industrial and those which are non-industrial, and the patterns of organisation have been evolved accordingly. In Britain all nationalised industries, manufacturing or otherwise, have been given the autonomous pattern of management in the form of public corporations. So is the case with the French nationalised industries. In the Canadian and American public undertakings, the dominating type of management is the autonomous statutory corporations. The controversy in the choice between the company type and the form of public corporation looms large. The Rangoon Seminar of 1954 discussed the matter at length and recorded that the company device meant evasion of "the constitutional responsibilities" to the Government and to Parliament and was "a mere fiction", because all or most of the functions normally vested in the shareholders and in the management were reserved to the Government by the statute setting up the Company.<sup>1</sup> Before pronouncing anything on the

<sup>1</sup> Op. cit. pp. 13-14.

justifiability of such criticism or otherwise, it would be worthwhile to look into the practice with the other countries. The company form of management has been stated to have "its definite use" in some situations, such as, in the case of "genuine joint ventures of public and private interests", or where flexibility of operation is needed by "elimination of delays and red tape associated with financial control in Government department and disciplinary control over the staff", or when different public authorities combine in a joint venture or in the case of an enterprise set up "with the definite prospect and intention of disposing of all or part of it to private interests or to the public".<sup>1</sup> But this view is not shared by some experts, as Mr. Hanson remarks that "no special justification is needed for the adoption of the company form of organisation in any of these circumstances."<sup>2</sup>

In Ceylon, the Commission on Government Commercial Undertakings recommended the public corporation form for administration and management of such enterprise about which the State decides that it should be the sole owner, but the form of Joint Stock Companies for enterprises "with varying degrees of Government participation in their capital and management."<sup>3</sup> But the position has substantially altered with the passing of the State Industrial Corporation Act, 1957 and now the idea of public corporation holds the ground. For India, Shri A.D. Gorwala has laid down that "where the nature of the work of an authority is substantially commercial, a Joint Stock Company is more suitable; otherwise a public corporation is desirable."<sup>4</sup> In fact, the Government of India have favoured the company form which certainly has an overwhelming place in the Indian public undertakings.

The consensus of opinion is, however, on the point that where an enterprise is wholly Government owned it should be set up in the form of a public corporation or administered depart-

<sup>1</sup> U. N. Seminar, New Delhi, Dec. 1959, op. cit. Seminar Paper No. 81 (relating to the Rangoon Seminar) p. 12.

<sup>2</sup> Hanson A. H. : *Public Enterprise and Economic Development* p. 353.

<sup>3</sup> Report p. 69.

<sup>4</sup> Op. cit., p. 18.

mentally.<sup>1</sup> But this has not been followed consistently in India. For example, Sindri Fertilisers and Chemicals, Hindustan Insecticides, Bharat Electronics etc., although wholly owned by the Government, have been given the company type of management. There seems to be little justification to leave these wholly state-owned enterprises to the company form of management where the Government officials dominate and where the managerial Board possesses little freedom of action. The Estimates Committee in their Ninth Report have criticised this form as "more or less extensions of departments. . . and are run on the same pattern with minor changes here and there."<sup>2</sup> This method has also been called by the Auditor General of India as a fraud on the companies and also on the Constitution and he remarked that, "These Private Limited Companies are in my opinion a fraud on the Companies Act and also on the Constitution, because money cannot be taken away from the Consolidated Fund for the establishment and transformation of certain concerns into private companies in the name of the President and Secretary to Government . . . . Further, to convert a Government concern into a Private Company solely by executive action is unconstitutional . . . . there should be the backing of suitable Parliamentary enactment for the setting up of corporations".<sup>3</sup> The criticism was based on the fact that as the Government is the only shareholder, the provisions of the company law have not much meaning in this context, and "the organisation of these enterprises as companies only reduced their accountability to the audit authorities appointed under the Constitution and to the legislature".<sup>4</sup> The Estimates Committee have also observed, "the propriety of earmarking separate sums from the Consolidated Fund for a large number of public undertakings in the shape of companies, and putting them out of reach of normal

<sup>1</sup> The Rangoon Seminar Report p. 14.

<sup>2</sup> Report 1953-54 : *Administrative, Financial and Other Reforms*, New Delhi p. 16.

<sup>3</sup> Statement made by the Auditor-General. Shri Narhari Rao to the Sub-Committee of Public Accounts Committee on 13. 12. 52., as quoted by Dr. Lanka Sundaram—*Lok Sabha Debates*, Dec. 10, 1953 Col. 1915.

<sup>4</sup> ECAFE Seminar, New Delhi, Dec. 1959, Paper No. 26 p. 6.

Parliamentary control on expenditure on the ground that the undertakings are autonomous is, therefore, open to question."<sup>1</sup> The matter, however, needs scrutiny.

It is pertinent to consider what a Government company is legally meant to be in India, and its relative features. The Companies Act, 1956 defines it as "any Company in which not less than fifty-one per cent of the share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments".<sup>2</sup> To improve the situation, the Company law further provides for the power of the Comptroller and Auditor-General of India to direct the manner of the Company's audit and to conduct also a test audit.<sup>3</sup> The Central Government has been empowered to suspend or modify any of the provision or provisions of the Act as necessary<sup>4</sup>, and in doing so the Central Government is to place a copy of the draft notification regarding modification of the Company law before both Houses of Parliament for a period of not less than thirty days before its issue for approval of both the Houses.<sup>5</sup> Parliament thus gets the opportunity to examine the case. These provisions of the Company law have substantially improved the situation and many criticisms originally levelled against the company form of management are, therefore, now relegated to the background. In this context it is, therefore, said that the distinction between the company form and the public corporation is insignificant.<sup>6</sup> The preponderant defect, however, lies in the overwhelming control of Government officials, and sometimes a civil servant in exercising his function in a dual capacity, as the Chairman or member of the Board to maintain the character of autonomous management and as the Secretary to the Government to keep "an oversight over the organisation", becomes indistinguishable as to "when he ceases to be the one and becomes the other".<sup>7</sup> Apprehension about the political influence emanating

<sup>1</sup> 80th Report, 1959-60 (2nd Lok Sabha) para 5.

<sup>2</sup> Sec. 617 of the Companies Act, 1956.

<sup>3</sup> Sec. 619(3), <sup>4</sup> Sec. 620(1), <sup>5</sup> Sec. 620(2), of the Companies Act, 1956.

<sup>6</sup> Sukla M. C.—*Administrative Problems of Public Enterprises in India*, 1959, p. 66.

<sup>7</sup> Prasad P.—*Op. cit.* p. 174.



from the Party in power to permeate into the system through the Government officials cannot be ruled out. Another defect is the dissemination of scanty information about the activities of the company for public knowledge or refusal to supply information about them. For instance, the Minister refused information on the Sindri's on the ground that he, as a shareholder, had no absolute right to obtain it and this feature evoked criticism in the Lok Sabha that each company "has become an 'imperium in imperio'—small kingdom, completely assigned to, shall we say, the overlordship of the officer who happens to be the Managing Director or Chairman".<sup>1</sup>

### Features of Company Type

The chief advantage of the company form vis-a-vis the public corporation seems to lie in its origin. The company form emerges from the Executive Resolution without the lengthy process of Parliamentary legislation. Distinction, therefore, lies in the degree of accountability of the two types of organisation. Corporate freedom is no doubt one of the essentials for efficiency of public enterprise, but excessive liberties may be harmful.<sup>2</sup> A study of the general pattern of Articles of Association, however, reveals that a public sector company provides for all possible powers and checks, and the matter has improved much by the incorporation of Audit and Accounts provisions in the Company law. Given the proper autonomy and accountability to secure "the protection of public interest", the company form can no doubt function with all the efficiency as a commercial company.<sup>3</sup> But in this connection the observations of Shri Jagjivan Ram is worth nothing as he said, "we have been following two patterns in managing them (public undertakings) either departmentally or through limited companies. We have found certain difficulties in both of them. Now we are trying to develop a pattern for the management of all Governmental undertakings which is likely to stay ultimately and that is the pattern of Corporations, where the Corporations, subject to statutory control and direction of the Government, will have comparatively more

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<sup>1</sup> Dr. Lankasundaram—*Lok Sabha Debates*, Dec. 10, 1953, Col. 1918.

<sup>2</sup> N. Das—*Industrial Enterprise in India*, 1956, p. 153.

<sup>3</sup> Sukla M. C. Op. cit. p. 66.

freedom in the management of their business.”<sup>1</sup> But nevertheless, in India the company type is now above the “mere fiction”, though final assessment of it is yet to be made. It is, however, urged that the Government should actively consider to introduce the public corporation form of management for the wholly Government-owned enterprise, as there is little point in giving to it the company form where the sole shareholder is the Government. The company form may be reserved for undertakings where participation of outside agencies in equity capital is allowed. But this type of enterprise is practically negligible in India.<sup>2</sup> In Italy, the company form is still in practice. But this form of organisation under the code provisions regulating private Joint Stock Companies has been criticised by Ernesto Rossi, who observed that “when State-ownership is total, the fiction of the private corporation offers bureaucracy important advantages of freedom of decision and of manipulation”. “It is difficult, therefore,” he goes on, “to justify the present legal structures when they are used either to strengthen the hold of obsolete, bureaucratic power or to favour private interests”.<sup>3</sup> In a recent study of the managerial control of nationalised industries in India, an Indian author has observed—“the joint stock company type is the worst. It is a misconception and turns out to be worse than the departmental type”.<sup>4</sup> This is no doubt an extreme view and it is difficult to wholly subscribe to it because creditable achievements are already seen in the case of some Government companies, e.g. the Hindustan Machine Tools, Sindri Fertilisers, Hindustan Insecticides, etc. There is, however, strong ground for converting them to the public corporation form of organisation to assure flexibility of operation and corporate autonomy.

### Public Corporation

Public corporation is a new innovation in the economic structure of India. This form of organisation is in a nascent

<sup>1</sup> *House of People Debates*, 20th April, 1953 Co. 4790.

<sup>2</sup> See ante p. 40.

<sup>3</sup> M. Einaudi, Maurice Bye and Ernesto Rossi, *Nationalisation in France and Italy*, 1955 p. 243.

<sup>4</sup> Ramasastri J. V. S.—*Nationalisation and the Managerial Role* 1957, p. 110.

stage in this country. "Public Corporation"—a phrase coined by the Crawford Committee on the British Broadcasting Service in 1926, has been conceived as an autonomous management pattern, and in all nationalised industry in Britain, this form has been introduced without reservation. The famous phrase of President Roosevelt pronounced in connection with the Tennessee Valley Authority Bill denoted the characteristic of public corporation, as an organisation "clothed with the powers of the Government but possessed of the flexibility and initiative of a private enterprise."<sup>1</sup> Prof. Robson has laid down the four 'leading principles' of public corporation such as, management autonomy, absence of equity shares and profit-motive, non-application of Civil Service Rules, and a self-contained finance divorced from the national budget.<sup>2</sup> The Rangoon Seminar also drew out the characteristics of the public corporation, conforming to the Robsonian principles, as "a wholly state-owned and statutory organisation having legal personality to sue and to be sued."<sup>3</sup>

Should there be any specific field of economy assigned to the form of public Corporation? A very pertinent question indeed and the answer is far from easy. "The public corporation is essential", observes Mr. Gorwala, "where the undertaking is discharging what is in effect an extension of the functions of Government, e.g. irrigation and hydro-electric projects as in river valley scheme, or the dissemination of information as in broadcasting, or surface carriage of passengers and freight in State Transport".<sup>4</sup> Mr. Gorwala, therefore, favours the public corporation form of organisation for public utilities and social services. This observation conforms to the traditional type of the usual Government activities and lacks breadth of vision. In Britain, France and the U.S.A., there has been obvious extension of the public corporations much beyond the traditional line, and

<sup>1</sup> Message to the Congress on April 10, 1933 on the TVA Bill.

<sup>2</sup> Robson W. A.—"*The Public Corporation in Britain*" in *Problems of Nationalised Industry*, 1952 pp. 27-32.

cf. M. F. Dimock—*The American Political Science Review*—Ibid pp. 900-1.

<sup>3</sup> Op. cit. p. 9, also Reproduced in the UN Seminar, New Delhi, Paper No. 81 pp. 8-9.

<sup>4</sup> Op. cit. p. 18.

the arms of public corporations are now extended to the fields of industries, public utilities and finance. Prof. Robson upholds in unequivocal terms the public corporation as "by far the best organ so far devised" for administration of the public undertakings.<sup>1</sup> But India has been vacillating in choosing the right pattern and earmarked the place of public corporations for economic enterprises other than manufacturing industries.

### No Hard-and-fast Method

One of the main obstacles to introduce public corporations in the manufacturing units seems to lie in the mixed economy in which there is either integration of private and public sectors, or both sectors functioning in the same field of economic activities. This feature calls for an organisational method where co-ordination should receive a prime consideration, and the company form of management is conceived. Nationalisation in India, as we have seen, is not total in most of the manufacturing industries unlike in Britain and this poses an additional problem for India to choose the pattern of management. A novel method was adopted in the U.K. in the Steel industry, since denationalised, where the Iron and Steel Corporation was conceived as only the co-ordinating authority of different Steel organisations that were left in their existing set-up and to autonomous functioning. This is analogous to a Holding company and falls short of the principles of a public corporation under which, in the process of taking over, the existing units lose their individual identity altogether. This form of nationalised Steel industry was, therefore, criticised by *the Times*, London, as "only half-nationalised."<sup>2</sup> The basic fact remains, however, that in Britain nationalisation of the industry has been effected as a whole unlike in India public corporations have been brought into existence in India in an enterprise where competition of outside agency is either absent or small. Admittedly, except Life Insurance, there is no total nationalisation of any private economic institution in India. In air transport, for example, though it has been nationalised and two public corporations have been functioning for internal and

<sup>1</sup> Ibid p. 493.

<sup>2</sup> Reference—Comments in *Political Quarterly*, Oct.-Dec. 1952.

external services, private enterprises have not been fully discarded which is evident from granting of licences to independent operators, which policy the Estimates Committee also supports, as it observes that "If private enterprise is expected to play its part in the further growth of civil aviation in the country, the independent operator should be left in no doubt about the Government's policy in the matter.<sup>1</sup> Now the Air Corporations (Amendment) Act, 1962 has provided for the private airlines to operate any scheduled air transport service "which is not provided by either of the Corporations or their associates".<sup>2</sup> Likewise, in the sphere of banking, Imperial Bank of India has been nationalised and christened in the new name of the State Bank of India with the avowed objective of extending banking and credit facilities to rural areas while the commercial banking is left to the private sector. Totality of nationalisation of an enterprise is, of course, one of the major considerations for giving it the public corporation type of management. It appears, therefore, that public corporations can better be effective in the fields of enterprise where nationalisation of an economic unit is total and is free from outside integration. It is also applicable to a fully Government-owned enterprise, in public utilities and in the services of social importance that require freedom from political interference.

To a superficial observer the difference between a company and a public corporation may look like that between a Tweedledum and a Tweedledee. But what is apparent is not real and for this the effect of creating a public corporation requires to be understood. A public corporation is created by statute and as a statutory body it functions within the frame-work of the relevant Act. It is inflexible to that extent as it cannot go beyond the provisions of the law and on the other hand, no external legal propositions and principles are usually applicable. "Since a statute," observes Mr. M.R. Masani, "can only be amended by an Act of Parliament, the Constitution of a Statutory Corporation is necessarily rigid. It is only too likely that the enterprise may

<sup>1</sup> 41st Report, 1956-57 para 39.

<sup>2</sup> Act 17 of 1962 Sec. 2 (e), enlarging Sec. 18 of the Air Corporations Act, 1953.

soon grow out of its statutory frame-work".<sup>1</sup> But this observation of Mr. Masani is, however, applicable to all statutes that can only be amended by Act of Parliament and is nothing particular to the public corporation. The legal personality of a public corporation to sue and to be sued is expressly provided in the Acts themselves for all corporations.

Broadly, the organisation in India is more or less on the pattern of the public corporations in Great Britain. But there are however "important differences" in the provision for the transfer of ownership. In Britain, an industry has either been brought totally under centralised control of a public corporation, as for example, the National Coal Board and the British Transport Commission which have become "the sole owners of the nationalised assets and undertakings", or its ownership is dispersed between the Central Authority and the Area Boards as in Electricity and Gas Industries.<sup>2</sup> In India, there is no dispersion of ownership and each corporation has the undivided ownership and authority and the regional Boards have been created for internal administrative purposes. In case of nationalisation of private industry, the Acts provide for vesting of ownership in the corporation on the "appointed day".<sup>3</sup> Whereas in case of a newly created public corporation for a new undertaking the corporation acquires assets in its own right conferred by statute and there is nothing like "vesting" in such circumstances.

In the matter of nomenclature of the Corporations, a great variety exists in India as in Great Britain. In Great Britain, for example, various names have been introduced, such as, National Coal Board, the Transport Commission, the Gas Council, the British Electricity Authority, the Colonial Development Corporation, and yet all are "public corporations".<sup>4</sup> Likewise, in

<sup>1</sup> Speech by Mr. M. R. Masani at a *Symposium on "Nationalised Industries"*—Article "*Whither Nationalised Industries?*" in *Commerce*, dated 8th May, 1954 p. 889.

<sup>2</sup> Action Society Trust—Nationalised Industries Series, '*Pattern of Organisation*', 1951 p. 2.

<sup>3</sup> Sec. 7(1) of L.I.C. Act 1956 ; Secs. 11 and 16 of Air Corporations Act, 1953 ; Sec. 6 of the State Bank of India Act, 1955.

<sup>4</sup> Robson W. A. *Problems of Nationalised Industry*, p. 32.

India the association of the phrase "corporation" is not found in all cases and diversity is noticeable in the nomenclature of some public corporations, as for example, Rehabilitation Finance Administration, State Bank of India and the Oil and Natural Gas Commission, apart from Port Trusts and Port Commissioners. The diversity of nomenclature does not, however, signify diversity of forms and organisation. All are public corporations having a defined statutory character and similar form and organisation.

No doubt India has principally followed the U.K. pattern of public corporation but there is cause for apprehension about the retention of the character because of the policy of larger integration of private capital in future.

It is evident that in the Indian public sector two forms of organisation—the company type and the public corporation, dominate. It is indeed too early to pronounce final judgement on the supremacy of the one over the other. But the trend of the institutional changes in other countries may be a profitable study. The action of the executives assuming sovereignty to the detriment of the powers that ought to be wielded by the legislature in creating institutions have been frowned upon by all leading countries, and legislations have been passed for curbing the executive freedom. In the U.S.A., the Government Corporation Control Act, 1954, expressly prohibits creation of public corporation through executive action.<sup>1</sup> In Canada, the Financial Administration Act, 1951, controls the public undertakings though they are given the form of public corporation, following the British type. In India, the companies in the realm of public sector, formed by executive resolutions, have been criticised as a weak pattern of organisation, and the Estimates Committee have remarked that "the company form should be an exception" and recommended that "in future before a public undertaking is set up in the form of a Government company a resolution seeking the approval of Parliament for the formation of the company may be moved" in order to "ensure that

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<sup>1</sup> Sec. 869.

Parliament is fully acquainted with all the aspects of a projected company and to enable it to express its considered views".<sup>1</sup>

### Need of a Fundamental Law

On an acceptance of the principle that public undertakings should be given the statutory corporation form of organisation, it remains to be considered whether each corporation should be created by a separate statute or there should be a general law in this regard. The practice prevailing in the other countries can well be worth considering. In Britain, the practice is to pass separate statutes for separate public corporations ; so also is the French practice. India too has hitherto closely followed the British practice to create each public corporation under a specific statute. But in a number of other countries, a different procedure is followed. A general law relating to public undertakings has been passed in some countries to govern the public sector enterprises. For instance, in the Philippines, there is "Uniform Government Corporate Charter"—Executive Order No. 399, promulgated by the President, pursuant to the powers vested in him by "the Republic Act Numbered Four Hundred and Twenty-two, otherwise known as the "Reorganisation Act of 1950", wherein it is provided under Section 21 that "All corporations hereafter organised by authority of the President for the economic development of the country, except those vested with governmental and regulatory powers, shall be chartered under the provisions of this Uniform Corporate Charter, unless otherwise provided by the President". The analysis of this provision shows that, in general, all corporations in future would come under the unified law but some may be exempted by the President from the scope of this law. But excepting some finance corporations all public corporations in the Philippines are now governed by this Charter. Similarly, in Indonesia, "there is one master law for the State enterprises".<sup>2</sup> The State enterprises here are established under the "Indische Bedrijven Wet, 1927".<sup>3</sup> In Ceylon, the "Government-sponsored Corporations Act (No. 19 of 1955)" in which "the policy of

<sup>1</sup> *The Estimates Committee*, 80th Report op. cit. para 17.

<sup>2</sup> U. N. Seminar New Delhi, Paper No. 25 p. 3.

<sup>3</sup> India's law on State enterprises.



joint Government and private participation in industry was adopted" was replaced by the "State Industrial Corporations Act, (No. 49 of 1957)" as an Act to enable the establishment of corporations with capital provided by the Government for setting up and carrying on industrial undertakings previously carried on by corporations established under the Government-sponsored Corporations Act, No. 19 of 1955, to regulate the powers and duties of the Corporations established under this Act ; and to make provision for purposes consequential to the aforesaid matters". This basic law, therefore, governs all State undertakings in Ceylon at present. Turkey has a Central law, Law 3460 of 1938. In the U.S.A. as well as in Canada, there is a controlling law relating to the public enterprises as shown above. India has no general law to govern public undertakings of the country. Government companies are governed by the Companies Act, 1956 in which a few Sections have been added relating to the Government Companies.<sup>1</sup>

All the public corporations in India have been brought into existence by special statutes passed by Parliament and none by the Executive action as in the case of British Broadcasting Service that was created by a Royal Charter following the Crawford Committee Report and the Memorandum of Sir Evelyn Murray, Secretary to the Post Office in 1926.<sup>2</sup> But that is a solitary instance of the Executive creation of a public corporation in Britain and in post-1945 period all public corporations there have also been set up by specific statutes. The chief advantage of creating the public corporation through Parliamentary procedure and special enactment lies in offering the electorate an opportunity to ventilate its opinion through the representatives in the forum of the House in favour of or against the proposed nationalisation or economic activities projected in the public sector. In the U.S.A. also the practice of creating corporation by an Executive decree has ceased and after 1945 the corporations have been created by Acts of Congress.

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<sup>1</sup> Appendix B, The Companies Act, 1956, Part XIII, Sections 617-629.

<sup>2</sup> W. A. Robson's "*Problems of Nationalised Industry*" p. 17 (Footnote)

The "Special law" creating a public corporation may be as comprehensive as the Coal Industry Nationalisation Act, 1946, in Great Britain, establishing the well-known National Coal Board or the Tennessee Valley Authority Act, 1933 in the U.S.A., creating the famous public corporation, the T.V.A., for development and administration of the inter-State river valley project.<sup>1</sup> All expected developments, however, cannot be reduced into written law and the law "will inevitably leave room for the development of conventions which may assist the work of the enterprise".<sup>2</sup> The public corporation Acts in India provide for flexibility as the rule-making powers are vested in the Central Government, which means it has powers to enlarge, modify, extend or suspend some important internal aspects of working of the corporation, as would be thought fit in the context of the situation within the frame-work of the express provisions of the relevant Act.

### **Fundamental Law—its character**

It is now pertinent to consider whether the country should have a general law with basic provisions to govern public corporations. On this fundamental issue views are rather divergent. The Rangoon Report says that "the creation of public enterprises by special legislative act appears to be clearly preferable to the other alternative methods. It is the only method which provides for thorough scrutiny and approval by the legislature and executive of the objectives and scope of the undertakings and for a clear definition of legal status, obligation, powers and organisational relationship".<sup>3</sup> Prof. Hanson calls this view as convincing but dogmatic and holds that in certain circumstances this practice will prove inconvenient and irksome. "If a whole sector of public enterprise has been made over to a Development Corporation", he observes "it would surely be unwise to insist that the agency should seek legislative authorisation for every subsidiary it proposes to create"<sup>4</sup>, and he stoutly asserts that "special

<sup>1</sup> Selznick Philip—*T. V. A. and the Grass Roots*, 1953 pp. 5-6.

<sup>2</sup> Hanson A. H.—*Op. cit.* 343.

<sup>3</sup> *Op. cit.* p. 19, Also *U. N. Seminar*, New Delhi, 1959. Paper No. 81. para 73.

<sup>4</sup> *Op. cit.* p. 365.

legislative act" is not invariably the best way of bringing a public enterprise into existence.<sup>1</sup> Prof. Hanson is, however, generally opposed to the view of having a general law but observes that if a general law is considered desirable "for one reason or another", the enterprises should be classified on the Canadian model to bestow distinctiveness of the legal provisions on each class or group of enterprises in order to minimise the law becoming "too stiff and arbitrary".<sup>2</sup> Mr. Mohammad Sadli in his paper on Indonesian Public Enterprises has a practical approach to the problem when he says that "separate laws are perhaps needed to regulate public corporations of a public utility nature, of a manufacturing nature, or a service nature. Of course, it would be cumbersome to require a separate law for each enterprise, but something in a form of a master law can probably be worked out, under which coverage the individual enterprise can be set up."<sup>3</sup> This obviously suggests classification of enterprises. The Estimates Committee also considers it "most desirable to have all the public undertakings to conform to a common pattern or patterns", though "some individual variations are inevitable due to the special characteristics and functions of a particular undertaking. Such variations should not, however, affect basically the overall pattern of organisation and responsibility."<sup>4</sup> The Committee has also recommended for having a general law for public undertakings in India in order to "secure uniformity in the structure, regulations etc. of the corporations."<sup>5</sup> Obviously, no law in this regard can be so comprehensive as not to leave any area untrodden. Caution should there be against making the provisions too numerous with possibilities of some of them being self-conflicting and the statute also to become an unwieldy document.

Categorisation of enterprises has distinct advantages. But the Canadian distinction of different types of public enterprises appears to be too numerous and cumbersome for being profitably introduced in the Indian cases. There should be two

<sup>1</sup> Ibid. p. 366.

<sup>2</sup> Op. cit. pp. 363-64.

<sup>3</sup> *U. N. Seminar*, New Delhi Op. cit., *Paper No. 25* p. 22.

<sup>4</sup> 80th Report Op. cit. para 15.

<sup>5</sup> Ibid para 16.

broad divisions of the Indian public undertakings, viz., (a) industrial and commercial enterprises and (b) non-industrial and non-commercial enterprises, in order to have the distinction to be clear-cut and well-defined. As a corollary, forms of organisations should also be of two types—(i) departmental and (ii) statutory corporations, in order to simplify the organisational structure. As a result of opening up of new vistas of public enterprises in India, the case for a basic law has gathered additional momentum. A study of the existing public corporations Acts clearly reveals that some provisions are uniformly applicable to all corporations and these may be enumerated as (a) status of *sui juris*, (b) central and executive Boards, though the numbers of members vary in different corporations, (c) borrowing powers under the Government guarantee, (d) disqualification of Directors, (e) Central Government's powers to issue directions, (f) approval of capital expenditure by the Government, (g) Audit and Accounts matters, (h) Government's rule-making powers. These basic provisions can easily be incorporated in the general law while special sub-rules should be framed for each undertaking in the context of its special and peculiar features. The specific sub-rules framed for any enterprise intended to be set up subsequent to the passing of the basic law, should come up before Parliament for discussion and approval. This process certainly will assure parliamentary control and accountability of the undertaking. A general law is, however, suitable for the undertakings of homogeneous character, such as industrial and manufacturing units, the nature of which is basically the same, whereas for the undertakings of heterogeneous types, such as banks, finance, public utilities, social services etc, there cannot, of course, be any ambivalent law, and separate statutes are necessarily to be passed. This feature of heterogeneity might be a convincing cause of having specific statutes for the Indian public corporations so far.

Public corporation is indeed a "constitutional innovation" in the new economy of the modern times. But the innovation has no unstinted ovation from all quarters as the classical concept of departmentalisation of the public undertakings refuses to die out. Indeed, the Code-Corporation controversy seems to

be going on unabated and even the developed countries have faced the dilemma and are hovering in the twilight.<sup>1</sup>

### New Concept of Institution—Survival Over Others

In India, this innovation introduced in a smaller ratio of public undertakings is in an experimental stage, and the future will make a final assessment either to retain the shape or to effect suitable modifications to the institutional structure in the public sector. Nevertheless, for the present, preference for this new institution is based on the fact that in this "there is the implicit promise of fulfilment of a social purpose without the handicap of bureaucratic rigidity".<sup>2</sup> Indeed, the avowed object of introducing a public corporation as a form of structural organisation in the economic field is to ensure the Board's freedom of management on the one hand and absence of indiscreet imposition by the Government on the other, and to maintain this character of a public corporation, a great deal of wisdom, self-restraint and introspection on either side as well as a free understanding between the Administrators and the Corporation authorities is an absolute necessity. It is rightly said that "there is no innate magic in the term "Corporation", and what is required is not a stereotyped form of administrative organisation but propitious conditions under which managerial skills are most likely to fructify."<sup>3</sup>

Public corporation which is still in the process of evolution certainly needs adequate protection against indiscreet encroachment on its domain by the administrative machinery, which can only be assured by the proper understanding of the principles on which the institution rests. In India, the institution of public corporation dates back only recently and has been steadily gaining ground. To make the innovation complete, the country needs a general law to govern the public undertakings all of which should take the form of public corporation, to bring the

<sup>1</sup> Hanson A.H.—*Parliament and Public ownership*, pp. 214-220.

<sup>2</sup> Dr. Gyancahnd : *Public Corporation* in Agarwala A. N. (ed) 1945, p. 5.

<sup>3</sup> Marshall E. Dimock : *Government Corporation : A Focus of Policy and Administration I* in the *American Political Science Review*, Vol. XLIII No. 5 Oct. 1949 p. 920.

public enterprises under a uniform charter of Parliament and an assiduous effort is called for in order to maintain the character of a public corporation. While there is no bragging of public corporations, there is, however, a demonstrable achievement of this innovation in the national economy of a number of developed countries, and on fulfilment of the conditions suggested above, the hopes highlighted by Prof. Robson that the public corporation "is destined to play as important a part in the field of nationalised industry in the twentieth century as the privately-owned corporation played in the realm of capitalist organisation in the nineteenth century",<sup>1</sup> would be a reality also in India. Let no extraneous and inhibiting factors imposed on this institutional device foil this expectancy.

<sup>1</sup> Prof. Robson : *Nationalised Industry and Public Ownership*, 1960, p. 77.

## PART TWO

### *PROBLEMS OF ORGANISATION—CHOICE OF PATTERN*

#### **Mixed Economy**

The economic history of India unmistakably indicates the overwhelming position of "Private Agencies" in the State undertaking in the British period, and the Managing Agency system in the private sector. A question naturally springs up in the mind why private agencies have been discarded in New India. An opinion is current that as the Government from its very nature is "incapable and ill-equipped for the setting up and administration of a business", a commercial enterprise can best be entrusted to private agencies for management. Such idea of entrusting to private agencies no doubt relieves the Government of much bother but the matter is easier said than done. Unlike the U.K. and the U.S.A. not only does India suffer from dearth of efficient private agencies, but attractiveness of an enterprise to lure a private entrepreneur to embark upon the venture, which is a crucial consideration, seems also lacking. The motive of private agencies *ipso facto* militates against the avowed objectives of a public enterprise and is incompatible with the State policy behind it. Private agencies can, therefore, only be recommended for a comparatively easy, small and less important sector of new economy of India, and in the gigantic development schemes of economic life of the country private agencies cannot be profitably made to fit in.

The Managing Agency system in the private sector has, of course, made a commendable contribution towards developing many big industrial undertakings in India, and in spite of scathing criticisms levelled against the institution from all quarters as well as stringent restrictions imposed on its functions and powers by the Companies Act, the system has still a very

strong grip hold in the private sector of the country's economy. Managing Agency houses are the most important agencies of development of private enterprises in India.

In the recent economic frame of India, a development agency has been added under the banner of the Industrial Development Corporation in 1954 which has been focussed as "a new institutional agency with power to take the initiative, incur risk and underwrite projects which existing agencies cannot do".<sup>1</sup> Though the Corporation is run in the public sector in the form of a joint stock company, it has no function, however, for developing the public sector industries but has been sponsored to insure particular segments of private enterprise against falling from their feet and to take them up to the expected level by financial aid and advice. In fact, IDC falls far short of a development agency and its functions sound rather to the patching up the gaps here and there with a view to having a cohesive development of existing specific fields of private enterprise or ultimately making over the sponsored industries to the private sector. There are also financial agencies, such as, Industrial Finance Corporation of India, Industrial Credit & Finance Corporation of India, Refinance Corporations etc. But these are all meant for aiding the private sector enterprises.

In the Indian public sector development agencies, on the lines of some other countries in Asia and in the West, are singularly absent. The development agencies that are generally functioning in other countries can conveniently be classified into three categories, (i) general development authority, (ii) industrial development or financial development body, and (iii) combined organ for industrial and financial development. For example, the Chilean Fomento is an outstanding example of a General Development Authority in the American continent, which undertakes to prepare development programmes after having studied the economic aspects of the country and to raise funds from internal and external sources to carry out the plan and programmes. Similarly, the Iraqi Development Board is a development agency having activities of greater range than that

<sup>1</sup> Planning Commission : *Five Year Plan Progress Report for 1953-54* p. 166.



of the Chilean Fomento, and its function covers a wide field. Whereas, industrial development agencies are found in some countries, for example, in Pakistan, there is Industrial Development Corporation which was established primarily with the object of promoting industrial enterprises which other industrialists were either unable or unwilling to undertake and the policy of the corporation is to supplement, rather than to displace, private enterprise.<sup>1</sup> Likewise, the Turkish Sümerbank is a very important State Agency concerned with industrial development and it is today "a very large and still expanding organisation".<sup>2</sup>

Apart from the character of development agencies as are found in Pakistan and Turkey, central organs for public sector development have developed in a number of countries which are like super-corporations. The outstanding example of a super-corporation is the Italian Istituto per la Ricostruzioni Industriale (IRI) founded in 1933 which administers all economic activities except fuel oil and natural gas products which are handled by another corporation, namely, the Ente Nazionale Idrocarburi (ENI) established in 1953. The peculiarity, however, lies in the form, as below this corporation there is a series of sub-holding companies for "carrying out technical and financial coordination of enterprises in particular sectors". Though IRI is a public corporation, the sub-holding and subsidiary companies are in the form of joint stock companies. The organisation of IRI in Italy and that of the Iron and Steel Corporation in the U.K., now defunct, differ in point of tiers of organisation, for, IRI is a super-corporation administering enterprises through holding companies having subsidiary companies, whereas the I & S.C. was conceived on the lines of a holding company having different iron and steel units as subsidiaries. In the Philippines, the Office of Economic Co-ordination (OEC), created under Executive Order in December, 1950 is the central organ to supervise the government-owned or controlled corporations. But in India there is no such super-corporation and each undertaking is administered by a specific institution.

In certain public corporations in other countries the form of organisation remarkably differs from that in India. In the

<sup>1</sup> *U. N. Seminar*, New Delhi, Dec. 1959, Paper No. 28 p. 1.

<sup>2</sup> Hanson A. H.—*Op. cit.* p. 238.

U.K., the British Transport Commission, for example, has a lower tier of six public corporations known as "Executives". In the Gas and Electricity in Britain, there are the central council and the regional autonomous public corporations. The difference between the structural organisation of the Transport and Gas or Electricity lies in that in the former, each Executive is in charge of a specialised service wherever it extends, whereas in the latter, each body is responsible for zonal administration. In each, however, the central body such as, the British Transport Commission, the British Gas Council and the British Electricity Authority is responsible for policy-making and controlling and co-ordinating functions. This type of federal structure in the organisation of public enterprise is conspicuously absent in India. The regional bodies in the Indian public corporation are but tiers of management and not echelons of the main structure.

A question now haunts whether a public enterprise that has its activities extended to different regions of the country should be given a federal structure having a central administration and the autonomous regional bodies or a unitary levels. Both of these forms, however, have distinct advantages in the administration of an enterprise, and the matter of choice poses a problem.

### **Multiplication of Bodies**

The multiplication of corporations in the same or similar fields of economic undertakings is noticeable in India. In the case of fertiliser industry, however, the different institutions such as Sindri Fertilisers & Chemical Industries Ltd., and the Hindustan Chemicals and Fertilisers Ltd., have of late been brought under a single corporation namely, "The Fertiliser Corporation of India Ltd." There are also multiplication in other fields even in a region, such as, the Eastern Shipping Corporation Ltd., and the Western Shipping Corporation Ltd. ; the Oil and Natural Gas Commission, the India Oil Co. Ltd. and the Indian Refineries Ltd. ; the National Mineral Development Corporation Ltd., the Orissa Mining Corporation Ltd., and the Indian Mining & Construction Co. Ltd. ; and in the field of Finance, Rehabilitation Finance Administration, Rehabilitation Industries Corporation Ltd., Industrial Finance Corporation, National Industrial

Development Corporation Ltd. and Refinance Corporation. So also are Durgapur Barrage projects in Bengal, Hirakud and Mahanadi projects in Orissa, Nagarjunakonda and Krishna projects in the South etc. Mr. Appleby recommended the like enterprises to be brought under a unified management and control, by vertical grouping of allied undertakings.<sup>1</sup> The Estimates Committee also recommends the pattern to utilise the existing organisations to take up new activities in the line instead of creating new bodies for the purpose. It observes that "before a new undertaking is set up the possibility of entrusting it to an existing undertaking in the same line should be considered."<sup>2</sup> Truly, the time is ripe to consider about reduction of the existing number of public corporations by the process of amalgamation and merger of the like undertakings. Does this suggestion look like setting up a super-corporation in a particular line of undertaking which has so long been assiduously avoided? This is a pertinent point for consideration. Though it bears an analogy to a super-corporation, it has a distinctive difference. A super-corporation connotes a supreme authority in the chain of command over the different units that function independently and do not lose their independent existence while the suggestion here is for merger and amalgamation of undertakings in the same line which has an analogy with the great combines in the U.S.A. and the U.K. The Steel projects in India have been brought under a single organ, Hindustan Steel Ltd., for all the three giant projects in West Bengal, Orissa and Madhya Pradesh. The Estimates Committee's proposal aims at bringing the same line of enterprise under a unified control and management. This has also been suggested in the case of air transport.<sup>3</sup> Though in June 1962 the Government informed the Estimates Committee its inability to accept its recommendation but the question of merging the two Air Corporations is understood to be still under active consideration and the matter may take a final shape in no distant

<sup>1</sup> *Re-Examination of India's Administrative System with special reference to Administration of Government Industrial and Commercial Enterprises*, 1956 p. 13.

<sup>2</sup> 80th Report (1960-61) Para 3. Also Planning Commission: *Third Five Year Plan*, p. 266.

<sup>3</sup> The Estimates Committee—41st Report Chapter V, Para 33.

future. In the scheme of unification, it is probable that there would be one chairman for the two boards of IAC and A.I.<sup>1</sup> But the scheme has obviously to face many problems before it can show results.

In the case of L.I.C., on the other hand, the Estimates Committee has suggested towards creating semi-autonomous zonal units having "an element of competition" between them.<sup>2</sup> The Krishna Menon Committee also shares this view.<sup>3</sup> Though the matter occasionally comes up for discussion before Parliament, it appears that the matter has not yet been so seriously taken up, and many are of opinion that the L.I.C. can profitably operate as a single unit. Similarly, Shri C. Subramaniam, the Union Minister for Steel and Heavy Industry in his first policy statement on May, 17, 1962 hinted on reorganisation of the Hinsustan Steel Ltd. in a decentralised form. Though the exact pattern of reorganisation cannot be foreseen at the moment but it appears that H.S.L. will not go unscathed. But the effectiveness of the scheme is not free from doubt and in giving it a practical shape real advantage should be visualised.<sup>4</sup> Decentralisation of powers seems, however, the greater need here and not multiplication of corporations or regional bodies.

There is therefore a bounden necessity to evolve a pattern where multiplication of separate undertakings would be reduced and at the same time decentralisation of management be assured for flexibility of operation in carrying out development schemes. What is necessary here is not to have the innovation in the merger or amalgamation alone but something more that goes deep into the matter. The correct balance should be to bring the like enterprises in the fold of a single corporation and to extend decentralisation of management by organisational innovations. While merger of the two or more units is an excellent suggestion, it must, however, associate with the creation of autonomous regional units as in the case of the British Electricity

<sup>1</sup> *The Statesman*, Calcutta dated Aug. 27, 1962 "Aviation Notes".

<sup>2</sup> 134th Report (2nd Lok Sabha) 1960-61 Para 10.

<sup>3</sup> Report : *Parliamentary Supervision over State Undertakings*, 1959 Para 82.

<sup>4</sup> See *The Economic Weekly*, June 23, 1962 p. 983.

and Gas industries, and Transport Commission. It needs complete overhauling of organisational structure as here the regional bodies would not be the creation of the central Boards but of the statutes having statutory existence and independent status of managerial control. This would ensure decentralisation of management and extension of responsibility to the men on the spot in deciding on matters at that level without looking to the top central management organ for instructions. But in case of an enterprise whose policy and pattern of execution is uniform throughout the country, autonomous regional bodies need not be created, as larger delegation of authority to areas would be an adequate remedy. In future, the public sector in India would be far-flourishing but the tendency of over-centralisation can well be got over by the organisational innovation either by creating autonomous regional bodies in the undertakings where the area problems need a different approach or larger modification or deviation from the central policy, or by extension of powers to the area authorities where the policy is uniformly applicable everywhere, as in the L.I.C. or H.S.L. The scheme would bestow a harmonious and combined character of control and flexibility in a reasonable proportion on the public corporations, and it is prophylactic of the malady of the centralised control.

### **Alternative Patterns**

In Canada, the U.S.A., Australia, Germany and Italy a great many state undertakings are still in the hands of Government, and the institution of public corporation is only making its headway. The U.K. is conspicuously a singular country where nationalised undertakings are mostly given over to statutory corporations for their administration. The State's direct operation is, however, more vivid in the under-developed regions, such as Latin-American countries, African territories, near and far Eastern countries such as Ceylon, Indonesia, the Philippines, Burma and Tiwan. Turkey is perhaps the only country where a comfortable balance has been struck between the degree and extent of the State's direct operation and those of the statutory corporations. In India, Company type of organisation is more prominent in the public sector than public corporations. There are, of course, many alternative forms, and it ought to be examined if any of them can be profitably introduced in the

Indian conditions. Of the other forms of organisation, the important are (1) combination and amalgamation (2) mutualisation and (3) co-operative organisations.

A combination may be of different types, such as, combination of existing plants into a unified organisation, which may be advantageously considered for combination of the different units for efficient and low-cost management before their nationalisation is conceived. Many big combines have grown into mighty organisations, such as, Imperial Chemical Industries, Imperial Tobacco Co., the United Steel Corporation and so on. Such industrial merger is conspicuously absent in India and, instead, trade associations and Chambers of Commerce act in unifying the different and conflicting issues involved in the price policy and marketing problems and sometimes regulate wage system of the constituent bodies. But the success of this type of voluntary association is dependent on the propriety of the different member units to show respect to a joint decision. Whereas the combination out and out, which is the creature of competition between the units either to have a monopolistic sway or for unification in the fields of raw materials, competitive application of factors of production, making an effective pricing policy and having a co-ordinated marketing of products, has a definite advantage in which it is more usual for the units to lose their separate individual entities, being merged into a large organisation under a common control and management, and the units thus merged become completely identified with the larger unit. Concept of combination, therefore, implies existence of different units in the same line of business operations ; and this poses a problem for the State to consider the possibility to persuade voluntary combination of the units or to enforce merger for efficient operation before proceeding to nationalise the industry. A glaring instance of the difficulty encountered by the Government in this respect is the case of Indian Airlines companies. The financial weakness of most of the units operating in the field could not be concealed and the Government made various attempts to amend the situation by grant of subsidy in the shape of concession over oil rates and persuaded for voluntary merger of the units engaged in ruinous competition with each other. But the efforts of the Government did not succeed and there was a

pressure on the Treasury to the embarrassment of the Government. Some critic may raise the question, perhaps overlooking the implication of it, that why the Government could not enforce the merger in the circumstances. The reason is obvious, inasmuch as no governmental action, no regulatory commission can impose an action on an independent unit before usurping its independent control. Regulatory measures cannot design throttling of the independent units, unless the law is very distinct on this point. Government, therefore, could but persuade the merger policy but could not impose it by any executive action ; and persuasion may or may not prevail. The failure of the merger proposal of the airlines was lamented upon by the Minister of Communications in piloting the Air Corporations Bill,<sup>1</sup> and the nationalisation was found to be the only alternative. Certainly, in these circumstances, the Government has two alternatives ; either it can nationalise the undertaking in the public interest or the Government must be fully seized with powers to enforce control over the activities of the undertaking. The apprehension that the potential power of the Government may act as Damocles' Sword on the private industry will be greatly allayed if the action of Government has got to be ratified by Parliament after having assessed the position fully in its pros and cons. The Government must be clothed with sanction of Parliament behind any such act. The combination as a form of organisation is, therefore, a weak conception and is dependent upon the free will of the existing units to bring themselves under a unified institutional management. Neither is there any parliamentary control over it nor can the Ministerial powers always be exercised effectively. No provision of issue of direction in case of a public corporation is laid down in the Companies Act, where a greater freedom of the company management is the accepted principle. The Memorandum and Articles provide such a clause however. But the Government does not intervene unless grave abuse of powers and egregious mistakes on the part of management can be held to be jeopardising national interest. Government, therefore, must be definite on its policy on nationalisation and should act on a well-thoughtout policy.

<sup>1</sup> *House of People Debates* dt. 20. 4. 53., Vol. III No. 16 col 4635.

Mutualisation is a far weaker conception inasmuch as it implies an agreement between the different units to fix some policy of management including finance, pricing and distribution. Mutualisation is a result of continuing operation in a collective way in mutual interests of the parties concerned, and can stand no comparison with public corporation. Immediately on the Government's action to nationalise Life Insurance business, Mr. A.D. Shroff jumped upon the Government to level criticisms and by the way, referred to the Labour Party of England which had the programme for nationalisation of the Prudential Assurance Co. Ltd., did not put that into action and there was mutualisation instead<sup>1</sup>, and accused the nationalisation of life insurance as a hasty and indiscreet action on the part of the Government to sabotage a private industry of great competence and repute. Without entering into the exigency of circumstances that led to the nationalisation of life insurance or assessing the merits of the policy of nationalisation, it may, however, unmistakably be stated that mutualisation is no substitute for nationalisation. Abuses in one form or other that sometimes come to light can hardly justify to keep up the confidence in the good sense of the private sector, which, as experience shows, without adequate measures of control over it and a potential danger of being superseded by the Government, cannot reasonably be expected to proceed on the right lines. Mutualisation scheme, which is sponsored by the units themselves to boost a common interest, can hardly carry the confidence of the public against abuses of public assets and funds of trust in private hands. Mutualisation is never total, but only on some particular aspects and it is, therefore, worse than combination, and can in no way satisfy the requirements of control and accountability as the public interest demands.

The form of co-operative organisation is no doubt a very oft-argued form of organisation to serve the public interest. Co-operative organisation is more or less absent in the industrial field and it is more common in local industries having small scale production and marketing and in agriculture. India has not

<sup>1</sup> Speech on "*Nationalisation of Insurance*" before the Democratic Group of the Indian Merchants' Chamber on 8. 2. 56., at the Greens Hotel, Bombay.



introduced any special form of organisation in agriculture although emphasis is put on co-operative farming for a more intensive and extensive agricultural operation with machinery and implements, especially when integration of fragmented holdings is complete by the State acquisition. Much emphasis is put upon the efficacy of co-operative organisation and Shri Nehru, the Prime Minister of India, is an ardent supporter of co-operative organisation in contributing to the development of economy. The Planning Commission also shares the view and holds that, "In the areas appropriate to it the co-operative form of organisation has advantages which neither the system of private enterprise nor that of State ownership can match"<sup>1</sup>. On an examination of this type of organisation, one is led to the belief that it is more suited to agricultural activities and small-scale operation in industry and commerce, as the co-operatives are formed mostly by local members having a first-hand knowledge of the area and its problems, and a mutual understanding between the members is the key to the success of co-operation. Extensive co-operative farming are seen in China, Japan, Russia, the U.S.A. and Canada. Really, the Government should put all emphasis on co-operative form of organisation in farm cultivation and marketing of agricultural produce, and here the conception of a super-corporation may be put into practical application to co-ordinate the loose ends in a region. The Central Warehousing Corporation which is a statutory corporation created under the Central Act (Agricultural Produce and Marketing Act, 1956) has now vastly extended its fields of operation in storage of produce and to facilitate profitable marketing of produce. Agricultural operation may also be brought under public ownership and it is also in the fitness of things as State Trading Corporation has assumed the responsibility of marketing of foodgrains of the country as a measure of control directly resulting from the finding of the Food Enquiry Committee of 1958. A central organ of public corporations with regional bodies on the lines of coal mining operation by the N.C.B. in the U.K. appears to be the desirable form to put agricultural programmes under an effective administration, and it is also in consonance with the objectives of the Central

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<sup>1</sup> *Second Five-year Plan—A Draft Outline* 1956 p. 65.

Warehousing Corporation, and the mutually harmonious action of the two organisations can do a lot in feeding the population and to alleviate distress. Nevertheless, co-operative organisation as such can ensure neither superior managerial role nor proper accountability which two features are the characteristics of a public corporation excelling over other types of organisations.

### Piecemeal Nationalisation

The feature of nationalisation of private institutions has been discussed showing that unlike Great Britain and France, nationalisation in India is partial and the same line of activities is carried on by both public and private sectors. This type of piecemeal nationalisation is wrong in principle and often a cause of deadlock, as policy of both the public and the private sectors on the same matter may be divergent<sup>1</sup>, and the result is obviously detrimental to the national interest. The competition of the two sectors in the same line is an unhealthy practice and the success of one may be seized upon for the criticism of the other. The mixed economy of Great Britain and that of India are different in this respect, as in the former no two sectors are allowed to function in the same line of business, and nationalisation is complete and total with regard to a particular industry in which no private sector is allowed to function ; and this is an acceptable proposition, although a slightly different view is not wanting, as Mr. Hugh Gaitskell observes that "The point is that we need not conceive of public ownership as always a matter of taking over a whole industry, making a structural change within that one industry and setting up a single large organisation, but as embracing also many other types of change : in some of these the State will be a passive and in others an active participant ; in some, completely new public or semi-public enterprise will be launched ; in others, existing firms may come into public ownership and management".<sup>2</sup> There is, however, a strong case for complete nationalisation of an industry, otherwise conflict is likely to arise on one occasion or the other. The Life Insurance is a complete form of

<sup>1</sup> Robson W. A. : *Problems of Nationalised Industry*. pp. 358-59.

<sup>2</sup> *Socialism and Nationalisation*. Fabian Tract 300 1956 p. 36.

nationalisation ; Airlines apparently signify total nationalisation but private operators also infiltrate ; whereas in the case of steel, Government has started three plants to run side by side with the existing private plants, and this is a weak feature of mixed enterprise. Of course, the accepted policy of the Government of India is not to disturb the private sector so long as it is doing well and has been functioning consistently with the national policy ; the policy is further to start new projects in the sphere yet unknown to the private sector. Nevertheless, to avoid bottlenecks, serious consideration should be given to effect nationalisation of a particular line of activities as a whole and to ensure also that no mixed enterprise should function here.

Another weak feature of nationalisation is to leave out the ancillary and dependent industries of a nationalised undertaking in the hands of the private sector, the result of which is delay, expensiveness and deadlock. It would behove well if the Government would consider about vertical and lateral extensions of nationalisation. As for example, in key industries, like steel, coal should also come under nationalisation to ensure an adequate and constant supply of fuel. In the nationalisation of a particular line of enterprise the sources of raw material and other essential commodities to feed the industry as well as the top distributing organisation should also come under the scheme of nationalisation to ensure an even working condition all through, as in it lies the efficacy as well as efficiency of a nationalised industry.

Apprehension has been expressed against the organisation becoming too large to administer. Mr. Clegg and Prof. Chester are the proponents of small units with autonomous management.<sup>1</sup> Similar view is expressed by the Acton Society Trust in order to have better industrial relations in small units due to proximity of management where multi-tiers structure of management would be absent. But the advantages enunciated cannot be the only consideration, and the correct approach to the problem is to conceive of a unit not too large and unwieldy for functioning within administratively contiguous areas. The

<sup>1</sup> *The Future of Nationalisation*, 1953, p. 170.

enterprises which are far extended should be regrouped into units of proper sizes for autonomous administration in the area, but not necessarily into the "miniscule units" for pettifogging administration. Determination of the optimum units in the public sector in India can ultimately be possible only after the examination of the achievements and failures of the existing units and when a correct yardstick is framed. As the public sector should not bite off more than it can chew, so also the operational units should not be too unwieldy for efficient management by properly-manned governing Boards. Attention should, however, be always focussed on the efficiency of operation and attaining the standard of effectiveness that would place the undertaking on a sound platform for public judgment. Any structural organisation and change must go hand in hand with the objectives of the enterprise and must have a well-knit texture and frame of managerial skill and initiative under a strong and effective governing Board. Indeed, there should not be unnecessary toying with the divergent ideas of the optimum units in the public sector and the earlier the problem is settled with a reasonable breadth of vision of the future development, the better for India.

## CHAPTER III

### *PROBLEMS OF MANAGEMENT—THE GOVERNING BOARD*

#### **Need of a Board**

Given the form of a public corporation and the optimum size of operating units, the next task is to determine the pattern of management for such organisation. "Whatever the form", writes Shri Gorwala, "without suitable men at the highest level of management, the Governing Board or the Board of Directors, the likelihood of success is very little".<sup>1</sup> This observation implies the introduction of a Governing Board to manage the affairs of a public corporation. Before examining, however, the aspects of a Governing Board of a public corporation, it is pertinent to examine the necessity of a Governing Board at all in view of the existence of the ministerial control and Parliamentary surveillance over the corporation relating to the policy matters formulated already by the Government for the public sector. Could not the policy of the Government be put into effect through a Managing Director, or a General Manager or at best a Committee of Management? The opinion on it is divergent. In the U. S. A., the opinion prevailed that "Congress is the overall Board of Directors; it determines the major objectives, policies and controls. Congress is analogous to the Stock-holders' Committee of a private corporation. The Government corporation's own Board of Directors, in contradistinction, is the operating Board of Directors, determining the *minor* matters of policy, organisation and control. It is analogous to the Executive Committee of a corporation"<sup>2</sup>; and the Hoover

<sup>1</sup> Gorwala A. D.—Op. cit. p. 19.

<sup>2</sup> Marshall E. Dimock : *Government Corporation : A Focus of Policy and Administration in The American Political Science Review* Vol. XLIII Oct., 1949 No. 5 p. 916.

Commission on 'Federal Business Enterprise' accordingly discarded any corporate Board between Congress and the corporation's executive management and held that "where Boards or part-time Boards are established, they should be wholly advisory and be appointed by the President".<sup>1</sup> Mr. Appleby also in recommending the character of the Board leaned towards delegating more "decision making powers" to the Managing Director who in turn is to delegate to his subordinates.<sup>2</sup> He did not, however, want abolition of the Board but desired a convention of delegating powers to the lower layers as "expert functions belong at lower levels". But the Board convention is too strong to be discarded and it is not without any benefit. It is idle to think that all supervision can be made from top and neither is it feasible or desirable that everything should be "guided from Delhi". A corporation is set up with an avowed objective to carry on the project within the broad frame-work of the Government policy and "once that objective is given to the corporation, then how it is to be done is a matter primarily for the policy making functions of the Board of Directors".<sup>3</sup> The utility of a Board lies, therefore, in formulating policies to run the enterprise with a view to achieving the given objectives. "As every practical observer of Government knows", observes Prof. Dimock, "there is an important area of sub-policy and decision making midway between the overall action of Congress and the point where the administrator takes. It is this area that a representative and resourceful Board of Directors must occupy if Government corporations are to operate with efficiency and accountability".<sup>4</sup> The necessity of a Board can, therefore, hardly be of any doubt and the corporate Board can in no way be considered as redundant or feckless. The real point is to decide the character of the Board and its functions vis-a-vis ministerial powers and public accountability.

The Board management of public enterprises is an accepted practice in India. But the Board here is not conceived as one-man Board, as in the case of the Economic Development

<sup>1</sup> Report, 1949 pp. 381-82.

<sup>2</sup> Ibid. para 55.

<sup>3</sup> I. I. P. A. Seminar New Delhi, op. cit. p. 21.

<sup>4</sup> Loc. cit. p. 916.

Administrator in Puerto Rico ; neither does it of the character of an advisory Board, as conceived by the Hoover Commission. It is obvious that mere Advisory bodies, whatever their value, do not furnish any alternative to the institution of an independent Board for ensuring the efficient conduct of public enterprises. The Boards in India are, therefore, similar to those in Britain with components adapted to the peculiarity of the circumstances of the country. Mr. Gorwala's conception of "a central Board for all Government industries throughout the country",<sup>1</sup> has been discarded as cumbersome and unpractical. No area Boards have as well been introduced in the public corporations in India on the model of the area Boards prevailing in the Gas and Electricity industry in Great Britain. Neither is there the system of two Boards in India as is in vogue in Germany where are two Boards, namely, Vorstand, which is an executive body of four members appointed by the Minister, and a bigger body of representatives of different groups of the community known as Verwaltungsrat, that acts as a "Council of Control".<sup>2</sup> The Boards in India, in fact, denote centralised control of the undertaking with delegation of defined powers to the lower levels as a centrifugal force.

### Nature of Board

Accepting the institution of Board, the next step is to determine the type and character of the Board that would ensure a smooth and efficient conduct of the enterprise. Controversy appears to loom large over the question—whether there should be a policy making or a functional Board or a mixture of the two. It is certainly a knotty problem admitting of no easy solution. Here a comparison may be drawn between the function of a public enterprise and a private enterprise. In a private industry shareholders elect from amongst themselves Directors to form the Board, and once the Board of Directors is formed, the policy-making powers constitute its functions, and shareholders do not, in general, interfere unless the execution of the Board's policy results in loss or a glaring irregularity. But in a public corporation there is no shareholder in the sense of a

<sup>1</sup> Gorwala A. D.—Ibid p. 30.

<sup>2</sup> Hanson A. H.—*Public Enterprise* p. 224.

private enterprise, and the Minister, acting on behalf of the Government, controls it. The Board of a public corporation can, in fact, exercise much less power than the Board of a private enterprise as obviously in important matters such as, extension of a project or incurring of any capital expenditure, the Minister's approval is to be obtained, and also its policy-making power is circumscribed by the board framed by the Government. That being so, the Board can only function in a limited way. But does this suggest that there is no need to have a policy-making Board? Certainly not. But controversy lies in determining the issue whether the Board would be policy-making or functional.

### Functional Board

The 'functionalist' claims successful implementation of policies without remaining complacent on the theoretical enunciation of policy. The functional Board is advocated for maintaining "unity of command in implementing policies" by the Directors undertaking responsibility of carrying out the policy rather than creating a Committee of Management, given responsibility of implementing the policy.<sup>1</sup> The critics argue that the Board in that case would tend to degenerate into a Committee of Operators, and the Directors being too much engrossed in departmental details are apt "to see only the trees and not the forest<sup>2</sup>." Under this arrangement the instructions flowing down "a series of parallel vertical pipes from each functional member would not only sometimes be difficult of co-ordination but may tend to split up the undertaking into" a number of specialised 'empires' and the replacement of one clear line of command by a series of parallel and unrelated ones."<sup>3</sup> India should, however, profitably draw lessons from the experience of functional Boards in other countries.

The National Coal Board in the U.K., as it was in its early stages, provides a conspicuous example where a functional Board gradually transformed into a policy Board. The N.C.B. was

<sup>1</sup> I. I. P. A. Seminar op. cit p. 21.

<sup>2</sup> Dr. Sudhri Sen—*The Economics of Public Corporation in Capital, Annual Number 1951*, p. 71.

<sup>3</sup> Hanson A. H. *Public Enterprise and Economic Development* p. 397.



established in 1946 with all the members serving on a full-time basis, and each of them took charge of an executive department such as production, marketing, finance, manpower and welfare, labour relations and scientific research, with the exception of the Secretariat and the Legal Departments which were not headed by Board members. The Heads of each Departmental staff had "a seat on the Board and a voice in the making of policy". The N.C.B. was thus originally a purely "functional" Board.<sup>2</sup> The transformation resulted from the recommendations of the "Burrows" Committee, which was followed by the resignation of Sir Charles Reid from the Board. The advice of the Committee was, however, adopted and the Amendment Act of 1949 provided for the increase of membership of the Board from nine to twelve and appointment of two members as Deputy Chairman. The Act also provided for appointment of part-time members, and the emphasis was on the policy board. In its Annual Report for 1948, the N.C.B. discussed relative merits and demerits of a purely 'policy' or 'functional' Board. One of the disadvantages of 'functional' Board it mentioned, lies in the feature that "the members may be too deeply immersed in their purely departmental duties to take a sufficiently broad view about things of moment to all departments." Whereas "with regard to what is known as 'policy' Board composed of only non-specialist administrators", it went on, "there is always the feeling that technicians are being over-ruled by people who do not understand technical matters."<sup>3</sup> Finally, the NCB, introduced "a blend of departmental and non-departmental functions such as are found in latter day cabinets."<sup>4</sup> But the process was completed by the reorganisation of the Board following the recommendations of the Fleck Committee in 1955, that somewhat restored the functional principle to predominance but essentially maintaining the character of a policy-making Board, as under this arrangement each full-time member was given a special field of responsibility without, however, being the head of the department. This position of a

<sup>1</sup> National Coal Board, *Annual Report* for 1946, para 6.

<sup>2</sup> N. C. B. *Annual Report and Statement of Accounts* for the year ended 31. 12. 48, H. C. Report Vol. XIII 1948-49 p. 116.

<sup>3</sup> N. C. B. *Annual Report* 1948 HMSO 187/1948-49 para 116.

<sup>4</sup> *Ibid* para 432.

member is analogous to that of the "Executive Director" of the modern type of board in commercial organisations. This is also the "emerging pattern" of the organisation of a Board of the British nationalised industries where there is a blend of full-time and part-time members, the former having specific fields of responsibility without being the heads of the departments and the latter being men of wide experience to bring in a fresh air into the organisation with "a more detached view".<sup>1</sup> This type may at the first sight appear to be a half-way house between a purely policy-making board and a functional board. But this is not correct as in this model the conception of an effective policy board is amply demonstrated.

Such transformation is also noticeable in the case of the T.V.A. The original scheme that the administrative control was to be in the hands of the General Manager and his assistants while the Board would be "functioning purely in a policy-forming role" was not given effect to, and the Chairman Dr. Arthur Morgan, who was designated as General Manager, was to function "subject to the continuing authority of the Board of Directors, acting as a Board". But this arrangement was substituted by a plan in August, 1933, which envisaged each Director to act in two capacities "as one of the three members of a policy-forming Board, and as the administrative head of one segment of the total T.V.A. programme". "The T.V.A. was thus launched on an experiment with an unorthodox plan of administrative organisation, the principal characteristics of which were that it merged policy formulation and administration in the same hands and set up three administrators with co-ordinated authority".<sup>2</sup> This position of dual role of the members was not supported by some experts. Marshall E. Dimock stated that "the Board of Directors should be the policy formulating unit, and although exercising complete surveillance and ultimate control over the management, it should

<sup>1</sup> Robson W. A.—Op. cit. pp. 228-9.

<sup>2</sup> C. Herman Pritchett—*The Tennessee Valley Authority* p. 157. See also Roscoe C. Martin (Ed)—*T. V. A.—The First Twenty Years* 1956 pp. 40-42.

not interfere with administrative details".<sup>1</sup> This view was shared by many and actually in 1936, the office of a General Manager was created, and the Board settled down to policy formulation. The tendency at the present time is dominantly to establish 'policy' Boards in most countries in preference to 'functional' Boards. In Canada also, as observed by Prof. Hodgetts, "the tendency seems in favour of which Prof. Robson calls the 'policy' Boards rather than the 'functional' Boards".<sup>2</sup> In Japan also, the Board of Directors is a "policy determining body".<sup>3</sup> In France, "the governing Board is supposed to decide all major questions of policy".<sup>4</sup> In ECAFE region, the general view is against the 'functional' type Boards which have been held "as a rule, undesirable".<sup>5</sup> In India, the opinion is overwhelmingly in favour of policy Boards.<sup>6</sup> In order to have a functional Board some requisites are to be met. Firstly, the members must be on whole-time basis ; secondly, the composition must be of diverse character for expert administration of technical and non-technical departments ; thirdly, there must be clarity of thought and free understanding between the members about policy matters to maintain a balance between their dual roles as a member in formulating policy on the one side and as an executive to carry out the policy in running the administration on the other. The pre-requisites of a functional Board cannot be met in the present Indian condition, and moreover, apprehension of misunderstanding between the members in their dual functions cannot be ruled out, and the conflicts at the top may seep down the organisation as a whole, which would certainly have an inimical effect upon the development programmes. The solution, therefore, seems to lie in setting up policy Boards for

<sup>1</sup> *National Resources Committee* in "*Regional Planning in National Development*", p. 114, as quoted by C. Herman Pritchett, *op. cit.* p. 163.

<sup>2</sup> *Op. cit.* p. 289.

<sup>3</sup> Shiro Okabe—*Public Corporations in Japan* in *Indian Journal of Public Administration*, Jan.-March 1955, Vol. No. I p. 219.

<sup>4</sup> Robson W. A.—*Op. cit.* p. 263.

<sup>5</sup> Rangoon Report as reproduced in Delhi Seminar Report No. 81, p. 13.

<sup>6</sup> I. I. P. A. Seminar *op. cit.* p. 22. Also Gorwala A. D. *op. cit.* p. 20.

the Indian public corporations with an Executive Committee to work under the Board in the line of command and in the hierarchy of administration.

### Policy Boards

No clear provision in this regard has however, been laid down in the Indian public corporation Acts or Rules framed under them. But an analysis would impart an idea that the Boards are conceived more of a policy type than of a functional type. In the Reserve Bank of India<sup>1</sup> and the State Bank of India Acts<sup>2</sup> there are provisions for the creation of a central Board which is entrusted with the "general superintendence and direction of the affairs and business" of the Bank. This provision is clearly suggestive of a policy Board and "supervision" is meant only in relation to the successful carrying out of the policy, and for which the Board "may exercise all powers and do all acts and do all acts and things". In other nationalisation law such as Life Insurance Act and Air Corporations Act, the Board is identified with the Corporation itself as the provision reads that "the Corporation shall consist of such member of persons etc." Which connotes that the Board forms the Corporation itself. The provision of Industrial Finance Corporation Act<sup>3</sup> is similar to that of the State Bank of India Act. The Boards in India are undoubtedly policy-making boards not the administrative functions have been delegated to the "central" committees<sup>4</sup> or Executive committees.<sup>5</sup>

In this regard also, provisions in the Acts are not uniform. Unlike the provision for the executive Committees in certain Acts, the Air Corporations Act provides for the creation of the office of a General Manager for the Corporation "efficiently to discharge its functions."<sup>6</sup> Be that as it may, the law is uniform on the

<sup>1</sup> Sec. 7 of Reserve Bank of India Act, 1934.

Sec. 17 of State Bank of India Act, 1955.

<sup>2</sup> Sec. 4(1) of Life Insurance Act, 1956.

Sec. 4(1) of Air Corporations Act, 1953.

<sup>3</sup> Sec. 6 (1) of Industrial Finance Corporation Act, 1956.

<sup>4</sup> Sec. 14 of I. F. C. Act and Its Regulation Clause 36.

<sup>5</sup> Sec. 19 of LIC Act and its Regulation Clause 12, and LIC Interim Report on the Activities of LIC, 1957 p. 3.

<sup>6</sup> Sec. 8 of Air Corporation Act.

point in keeping the Boards out of day-to-day administration of the policy that they would frame. The Estimates Committee also recommended that the management of a public enterprise "should be entrusted to a Managing Director or a Board of Managing Directors"<sup>1</sup> Controversy may however arise over the question of propriety of a Committee of Management below the Board. The Committee of Management calls for appointment of wholtime personnel and dearth of personnel is a serious obstacle to this. But the remedy does not lie in discarding a liaison between the Board and the men at the bottom as the wisdom of it lies not only in avoiding the dual rôle of the members in which system they may go to slight one or both of their major responsibilities but also in avoiding conflicts between the co-administrators, as otherwise, the effect is certainly dangerous, and it is rightly said that "disagreement among policy makers is expected and may be quite salutary ; disagreement among co-administrators may easily be disastrous".<sup>2</sup> The Board members should not, therefore, function in dual capacity.

The weakness of a policy Board lies in the difficulty of spotting out responsibility for any adverse result. In case of a functional Board, each member being in charge of particular field or fields of activity, credit or discredit may be directly fixed on him unless there is any direction from the top that is responsible for the result. Whereas in the case of a policy Board, it would require "the wisdom of a Solomon" to disentangle the failure of an enterprise which results from the fault of a particular member from the faulty policy of the Board as a whole. To impute individual responsibility for any adverse result registered in a public enterprise is, no doubt, disquieting because a particular member of a Board can hardly be held responsible for any adverse result followed from the execution of a policy framed by the Board as a whole. The failure of the Ground-nut scheme of Overseas Food Corporation of U.K. is an instance in point which led the Minister of Food to dismiss two members, and one of the members (Mr. Wakefield) refused to resign on the ground that "the Board as a whole must be held responsible for all decisions of policy which had been taken",<sup>3</sup> and

<sup>1</sup> 16th Report (1954-55) Para. 7.

<sup>2</sup> C. Herman Pritchett—Op. cit. p. 163.

the Minister's action against individual members was criticised as an "unfair discrimination".<sup>1</sup> On the other hand, in case of a functional Board, discontent amongst the members over their relative functional importance and responsibility is a possibility, and this is illustrated by the earlier situation of the T.V.A. when in June, 1933, the Chairman, Dr. Arthur Morgan was designated as General Manager combining in him the duties of a General Manager of a private corporation and co-ordination and general administration of the scheme programmes of the Corporation, and this dominating role of the Chairman was not viewed with pleasure by the other two Board members on the ground that the statute gave no special power to the Chairman ; neither did it require the other members to accept a subordinate position in the execution of the corporation programme.<sup>2</sup> As a possible curse of a functional Board, this conflict seeped down the veins of the organisation, and after much controversial bickerings and deliberation, the new plan was put through, in which the office of the General Manager became "the Janus of the organisation looking to the Board for policy direction and approval of major programmes to the staff for the formulation of proposals and the execution of approved policies and programmes".<sup>3</sup> Opinions, therefore, differ on the proper type of the Board that should be introduced in a public corporation, but admittedly, the consensus is to create 'policy' Boards, and India should also follow this principle to have Board of Directors for policy making with an executive Board on the model of Hindustan Steel Ltd. It appears, however that there cannot be any hard and fast rule as to the type of the Board as it would depend upon the nature of the undertaking. In the case of a finance institution, such as, the Industrial Finance Corporation or State Bank of India, a policy Board may be considered more appropriate but a functional Board may be more advantageous in the case of industrial or commercial undertakings where technicality of operation is involved requiring responsible handling of policy matters and execution thereof. The Company form of organisation in respect of industries in India has, however, not introduced functional

<sup>1</sup> Robson W. A.—Op. cit. p. 107.

<sup>2</sup> C. Herman pritchett—Op. cit. p. 153.

<sup>3</sup> Roscoe C. Martin (Ed)—Op. cit. pp. 42-43.

Board and the practice of policy Board and an executive Board as in the Hindustan Steel Ltd. can be taken to be the model introduced in India so far. In India, the Boards are undoubtedly the policy Boards. The Estimates Committee wanted the D.V.C. Board to act as a "functional body" within the general policy laid down by the Government of India for the execution of the project, and the composition of the Board by an Administrator, an Engineer and a Financial Expert.<sup>1</sup> But the Rau Committee held this suggestion as "inappropriate" and the DVC Board continues to function as a policy Board.

### Regional Boards

The emergence of regional or area Boards can be directly attributed to the convenience for executing the policy formulated by the national Board. Regional Boards are practically absent from the provisions of the public corporation law in India. Great Britain is perhaps the only country where a great divergence in set-up of statutory Boards is well marked. In the Gas industry there are 12 Area Boards which are "almost autonomous bodies as regards the manufacture and supply of gas". The Electricity industry has 14 Area Boards. The Transport Commission created six Executives. Although much autonomy has been given to the Area Boards, the Central Boards have the ultimate supervision and control over the financial policy for the industry as a whole. These area Boards in Gas and Electricity, however, stand on a different footing from that of the Divisional Boards of the National Coal Board. The Area Boards in Gas and Electricity industries are statutory bodies and a great amount of power is enjoyed by each Board with regard to the area. It is argued that as production and distribution are more localised for technical reasons, "the case is strong for setting up separate Regional Boards which combine the two functions, with a central body exercising a co-ordinating function".<sup>2</sup> The Divisional Boards in the National Coal Board, on the other hand, are for administrative convenience in the

<sup>1</sup> 5th Report, March '52, para 46 and 8th Report, 1953-54, para 22.

<sup>2</sup> Lord Citrine—*Problems of Nationalised Industries in Public Administration* 1951 p. 320.

scheme of decentralisation. In coal, ramification of the mines as suggested by Sir Charles Reid, by creating 26 Corporations to control operations and each corporation to be "managed by a Board consisting of a Managing Director, who would have full executive powers",<sup>1</sup> has not gained acceptance. In this proposal for a new organisational structure the area corporations would have executive powers while the functions of the N.C.B. "would be confined to directing the national policy of the industry." In substance, however, this proposal does not substantially vary from the practice in Gas and Electricity industry, where also the Central Board as in the Electricity industry, apart from their right to give Area Boards such directions as they think necessary to secure proper co-ordination or to exercise control over policy, has specific powers in financial matters, and "it is the Authority and not the Area Boards who are responsible for seeing that the industry must pay its way".<sup>2</sup> The Area Boards thus have executive freedom in local matters having a say also in regard to policy matters pertaining to the area but their functions are subject to direction and supervision of the national Board.

The statutory autonomous regional Boards, however, take away some powers and functions of the central Board and in this context, Prof. Robson has observed, "the Gas Council is a far weaker body rightly so, since the functions requiring central decision or administration are fewer and less important in the Gas industry than in Coal or Electricity".<sup>3</sup> Nevertheless, in the scheme of delegation, the statutory autonomous regional Boards are obviously better than those conceived for administrative convenience in which the delegation is very often cautious and reserved. An area Board is, however, never designed to enjoy as much power as a central Board. An area Board is required to exercise the fullest discretionary powers to carry out the scheme programme at local levels but it "must carry out all directions from the Central Authority regarding the co-

<sup>1</sup> Sir Charles Reid—*The Problems of Coal II—An analysis of the Present Organisation* in *The Times*, London dt. 23rd. Nov. 1948 p. 5.

<sup>2</sup> *The Report of the Committee of Inquiry into the Electricity Supply Industry* (Herbert Committee) January, 1956. Para 130.

<sup>3</sup> Op. cit. p. 99 cmd. 9672 H. M. S. O.



ordination and general policy of the industry".<sup>1</sup> The function of the area Board is just below that of the national Board and above the General Manager or the Executive Board. The regional Boards in Britain are of heterogeneous character. As for example, in Gas, the regional Boards are also policy making body on regional matters ; in Electricity, the regional Boards are more akin to management Boards, while in the Transport, the Executives are management Boards.<sup>2</sup> In India the establishment of local Boards has been provided for in the Reserve Bank of India Act<sup>3</sup> and in the State Bank of India Act.<sup>4</sup> But the character of the local Boards widely differs in these institutions in as much as the local Boards of the Reserve Bank of India "shall advise the central Board on such matters as may be generally or specifically referred to it." Whereas the local Boards of State Bank of India "shall exercise such powers and perform such functions and duties as the central Board may assign to the local Board." In practice, the local Boards enjoy much more restricted powers and functions than those conceived for an autonomous regional Board. The importance of local Boards depends much upon the delegation of authority by the Central Board. The "interlocking of Directorship" between national and regional Boards has an obvious adverse effect on the effective formulation of policy ; and the national Board becomes undoubtedly weak, as for example, the Gas Council of Britain is often confronted with difficulty in the matter of policy-making because of rival claims put forward by the Area Boards Chairmen, composing the Council. But the interlocking of Directorship between the central board and the local Boards has also been provided in India which is akin to the nature of the British Electricity Authority, but here the central Board is not formed of congress of the area Boards Chairmen as in the Gas Council of Britain. No doubt the interlocking of Directorship cannot be avoided at this stage due to dearth of talents but a moderation of outlook of the Directors to work as a team can convincingly keep off the apprehension of any

<sup>1</sup> *Herbert Committee Report op. cit.* Para 60.

<sup>2</sup> Action Society Trust—Pattern of Organisation *op. cit.* p. 19.

<sup>3</sup> Sec. 9 of Act II of 1943.

<sup>4</sup> Sec. 21 of Act XXIII of 1955.

deadlock, and on the T. V. A. model<sup>1</sup> the area Board Chairman may be allowed to attend the central Board sittings to offer their views on matters relating to their respective areas and this would tend to develop a mutual respect and confidence between the area and central Boards.

The necessity of local Boards is undoubtedly high in the matter of finance and banking and in a developing country, which has to execute plan programmes of all characters and in the scheme of all-embracing economic development the regional bodies can contribute substantially to its success by bringing home the local problems to the national Board to help formulate a comprehensive policy. A distinction should, however, be drawn between a statutory autonomous Board having a controlling function, and shaping and re-shaping policy in the light of local problems and an area management Board which enjoys power in the scheme of delegation from the central authority. It is in the fitness of things that the regional Boards in a developing country like India should be a combination of centrifugal and centripetal forces. No Corporation Act in India provides for any statutory regional bodies. The zonal system in the Life Insurance Corporation cannot also strictly be categorised in it as this system relates more to administrative convenience rather than delegation to the zonal authorities as to policy matters for the local areas. The Damodar Valley Corporation offers proper scope for creation of autonomous area Boards on the model of the British Electricity industry as the locale of products is the respective areas and servicing is also more or less localised. The Oil and Natural Gas Commission which is in the nature of development Agency should have autonomous regional Boards to carry out the schemes fully by a co-ordination between the policies framed at the area and national levels. The proposed expansion of public sector oil refineries and processing as a result of discovery of oil at Cambay and Ankleswar necessitates changes in the organisational structure as well.<sup>2</sup> But in case of the undertakings the national policies of which are not so much dependent on area problems

<sup>1</sup> Roscoe C. Martin (ED) *Op. cit.*, p. 49.

<sup>2</sup> *The Statesman*, Calcutta Oct. 17, 1960.

and supply or service is of the same nature everywhere. Regional boards with larger delegation of authority can be more recommended than autonomous area boards. The L. I. C., I. F. C. and C. W. C. can well come under this category. The Government should consider to create area boards to give full recognition to the area problems and "the men on the spot" should owe direct allegiance to the area Board, and this would also go to develop "grass-root" co-operation and industrial democracy. The apprehension expressed by Sir Arthur Street that the lower tiers of quasi-government bodies "tend unduly to complicate the administrative pattern and may be said to make control by Parliament and the people too remote",<sup>1</sup> would hardly assert itself if a proper understanding is developed between the higher and the lower tiers and the matter is visualised from its proper angle in the light of practical working possibilities.

### Composition of Board

The Composition of the Board is most vital for the success of a public corporation. An undertaking which calls for "energy, drive, enterprise and specialised management" must have a competent Board for conducting it successfully.<sup>2</sup> Mr. Herbert Morrison, a primogenitor in the conception of public corporation in the U.K., in discussing about the composition of the Board unequivocally declared that the Board should be composed of "the best brains that we can secure" and for this "we must insist upon all the members being persons of business ability and capacity".<sup>3</sup> In composing the Board, persons of proven ability and experience with a commercial outlook are recommended for efficiency and success, and in order to attract able men the posts should not only carry sufficient remuneration<sup>4</sup> but also the proper prestige, dignity and status.

A possible composition of a model Board has been indicated by Prof. Robson which, according to him, should be composed of (a) a person with experience in industry and commerce, (b) an extrade union officer of standing, (c) a former Civil servant

<sup>1</sup> *Quasi-Government in British Government since 1918* p. 171.

<sup>2</sup> Gorwala A. D. *Ibid* p. 19.

<sup>3</sup> *House of Commons Debate* Vol. 250 Cols. 54-55.

<sup>4</sup> *House of Commons Debate* *Ibid* cols 56-59.

of outstanding calibre, (d) a financial expert or accountant, and (e) an engineer or scientist—"with an occasional retired General or Air Marshall thrown in".<sup>1</sup> In India, the Krishna Menon Committee has suggested that "a Board should consist of financial talent, administrative talent, technical skill, representative of labour and personnel management".<sup>2</sup>

Indeed, no hard and fast composition of a Board can be suggested as that would depend very much upon the nature of an undertaking. For example, in a defence industry, an Army personnel has an importance, or in case of social insurance, a Trade Union official should undoubtedly have an important position. But neither of them is suited or indispensable for a river valley project where the engineer should have a dominant role. The composition of a Board hinges to some extent upon the nature of the enterprise to suit its purpose and objectives. "It is clear", observes Mr. G. D. H. Cole, "what is needed in these cases is a combination of personal qualities and of special expertness in particular fields, and that is most likely to be secured by not tying the Minister making the appointment down to any fixed formula".<sup>3</sup> It is, however, agreed on all hands that the composition of the Board must not be such as to obscure the essential condition of its autonomous position by direct or surreptitious means.

### Manning the Boards

Controversy over the appointment of Board personnel is acute in India especially over the appointment of Civil Service people on the Boards. It has been argued that such appointments lead to a blurring of responsibilities and, the integrity of the Board is jeopardised by the overpowering assumption of control over the Board's decision by Civil Servants serving on the Board as well as maintaining allegiance to his position as a Civil Servant. The dual role has an inimical effect upon the administration of a public enterprise as the Civil Servant may

<sup>1</sup> *Problems of Nationalised Industry* p. 96.

<sup>2</sup> *Parliamentary Supervision over State Undertakings*, 1959, para 25.

<sup>3</sup> G. D. H. Cole—*The National Coal Board in Political Review* Vol. XVII Oct.-Dec., 1946 p. 319.

often fail to balance his judgment as to the discharge of responsibilities in both capacities. In India the Boards are often constituted by members of Civil Service in different public enterprises but this feature is less conspicuous in the case of public corporations, and the consensus of opinion is to appoint Civil Servants for the whole time so that his exclusive allegiance to the corporation is assured. "That if the Executive officers of the corporation are to be appointed from the Civil Service", commented Mr. Justice Chagla, "it should be impressed upon them that they owe a duty and loyalty to the corporation".<sup>1</sup> Appointment of Civil Servants on the Boards of public corporations has not been much favoured in Britain and though of late there are a few Civil Servants on the Boards the emphasis is upon the men with industrial experience.<sup>2</sup> There is, however, an important difference between Great Britain and India, in the matter of choosing the "men on the Boards", and this is significant. There is little difference of opinion in the matter of retaining the autonomous character of the public corporation and with this view personnel of highest integrity, skill, drive and imagination are looked for. But dearth of personnel is proverbial in any under-developed country,<sup>3</sup> and India has been feeling want of requisite 'calibre' to implement her Five-year Plans effectively and without loss. Where from the personnel for the Boards are to be drawn? Obviously, from business, public life or Civil Service. The business outlook is certainly one of the essential conditions of success of an industrial or commercial enterprise as it ensures flexibility of operations. But a seasoned businessman can hardly be impelled to undertake the responsibility of a State enterprise possibly for two reasons. Firstly, he is "too much engaged" in the business in which he is directly interested and, secondly, he may not see eye to eye with the Government in policy matters and the apprehension

<sup>1</sup> *Report of the Hon'ble Mr. M. C. Chagla, Chairman of the Commission of Inquiry into the L. I. C. of India* dt. 10. 2. 58, p. 23.

<sup>2</sup> Action Society Trust—*Nationalised Industry Series 1952—The Men on the Boards* p. 5. And also Robson W. A.—*Op. cit.* p. 221-2.

<sup>3</sup> W. Arthur Lewis—*The capital needs of underdeveloped countries in Financing the economic development of underdeveloped countries* (U. N.)

is there that his movement and action might be shackled by governmental regulations and instructions from the top.

"The unwelcome fact is that", writes Mr. Hanson, "in most under-developed countries today the personnel of the Boards has to be drawn very largely from the Civil Service, because there are so few other sources of people who possess even the most elementary qualifications for membership".<sup>1</sup> This is certainly a weighty consideration also in Indian condition and perhaps this also prevailed upon Mr. Appleby to suggest Boards of public enterprises composed of Civil Servants, though he is never dogmatic in his view as he says that "those most attuned to public responsibility . . . will generally, but not always, be Civil Servants".<sup>2</sup> In the initial phases of development of public enterprises, the Boards must, as a matter of exigency, be manned mostly by Civil Servants.

Really, Civil Servants, "a group of well-informed, educated people, experienced in certain branches of administration" can immensely contribute to the success of State Enterprises,<sup>3</sup> provided they as a class shed their bureaucratic outlook and stand-offishness to work in a team spirit. But the dignity of a Board depends very much upon treating the Board in its real character of an autonomous body. A Civil Servant should never consider his position as a "channel of communication" between the Board and the Minister. Neither should he consider his position as a liaison between the two. "Once appointed there he puts himself entirely at the disposal of the concern rather than be the watch-dog of the department on the Board".<sup>4</sup> This certainly emphasises the need for the whole-time service on the Board in order to keep up the allegiance and integrity of position. Dearth of acumen and talent is a serious obstacle to

<sup>1</sup> Hanson A. H.—Op. cit. p. 404.

<sup>2</sup> Paul H. Appleby—*Re-examination of India's Administrative System with special reference to Administration of Government's Industrial and Commercial Enterprises*, 1956, p. 54.

<sup>3</sup> Article entitled "Executive positions in Public Sector Enterprises" by N. K. Sengupta in *the Statesman*, Calcutta dt. Sept. 5 1957.

<sup>4</sup> *Report on Seminar on Administrative Problems of the State Enterprises in India*, Indian Institute of Public Administration, (I. I. P. A. Seminar) New Delhi, Dec. 1957 p. 23.

the whole-time appointment of Civil Servants on the Board as in that case civil administration is bound to suffer from shortage of administrative talents and ability. In this situation the Board cannot totally be made up of officials, but a "mixed Board" of officials and non-officials is a possible solution. A Board, composed of officials, is bound to be only advisory in character without sufficient strength to formulate its own policy and effectively pushing it forward. The "Appleby type" Board conceived on the recommendation made by the Hoover Commission in the U.S.A. appears to be leaning more towards creating an Advisory body rather than an autonomous Board as in the U.K. and France, and is an underrating of India's conception of public corporation. A public corporation in India has been extended an autonomous status on the Morrisonian model like the one in the U.K., and the Board has an autonomous character to formulate policy and actively put it into effect. Mr. Appleby's recommendation cannot, however, be dismissed so easily as it takes a very practical view of the matter but this is certainly to outlive its motivating force in course of the developmental phase of the country. A Board dominantly composed of officials has the curse of being dictated by informal direction of the Ministry as the officials are bound to be pusillanimous to oppose it for fear of losing the "good book" of the Minister.<sup>1</sup> This sort of stupor prevails from the misconception of the functions of the Civil Servant acting in a dual capacity in the frame of civic administration as well as on the Board of a public corporation. And experience shows that in the dual role the allegiance is more demonstrated to the department than to the corporation and this has been criticised, as in such case in the Board meeting generally "the agenda is run through, each officer giving his department's point of view and then hurrying back to his post of duty".<sup>2</sup> It would be a mistake to think that in India Civil Servants are being given scanty recognition in the Boards, but on the contrary, they occupy an important place, and its 27th Report, the estimate Committee has actually recommended for inclusion of Civil Servants representing the different Ministries, on the Board of Hindustan Antibiotics.<sup>3</sup>

<sup>1</sup> I. I. P. A. Seminar op. cit. p. 23.

<sup>2</sup> *Estimates Committee* 9th Report, 1954 pp. 16-17.

<sup>3</sup> Report 1955-56 para 13.

The propriety of appointing civil servants on the Boards of public undertaking had been examined at length by the Krishna Menon Committee which had expressed its opinion against the appointments of "Secretaries or Senior Officers of Government while they are still functioning in Government".<sup>1</sup> But the Government did not endorse to this view and the issue was referred to a Committee of Central Secretaries headed by the Cabinet Secretary, Shri Vishnu Sahay. According to this committee, "there should not be any objection to the appointment of officials as the Chairman or Managing Directors of the public undertakings". In case of part time appointment as a Director, however, the committee has held that, it must not go to the Secretary of the executive Ministry. This view of the committee has been endorsed by the Central Government<sup>2</sup>. The proposal for a whole-time Chairman of a public enterprise is certainly wholesome and rewarding. But it is suggested that as far as practicable part-time appointment of civil servants on the Board should be avoided.

Happily, in India, the Civil Servants have been taken in some Boards of public corporation on whole-time basis. In D.V.C., L.I.C., Air Corporations, the Civil Servants are the whole-time members of the Board although, of late, due to the completion of the work in D.V.C. all are now part-time members. They, however, retain their position as Civil Servants and may be called back by the Cabinet at any time to work in the departments. But the beneficial result of whole-time service on the Boards lies in the identifying of the man with the organisation and his owing a full allegiance to the Corporation. But there are a number of part-time Civil Servants on the Boards. In the D.V.C. for some time all the three members belonged to Indian Civil Service as also all the present members are I.C.S. men; in the Industrial Finance Corporation majority of the members either belong to the cadre of Civil Service or are Ministry officials. Such is the case also with the Airlines

<sup>1</sup> Report on "*Parliamentary Supervision over State Undertakings*" Sub-committee of the Congress Party in Parliament, 1959 para 38, see Also Third Five Year Plan—Ibid p. 268.

<sup>2</sup> See the *Statesman*, Calcutta dated Oct. 26 1961 and also the *Statesman Editorial Note* dated Nov. 9 1961.



Corporations. The Board of the Employees' State Insurance Corporation is not only the largest but also preponderantly composed of officials and here the Minister of Labour and the Minister of Health are also members. A number of parttime Civil Servants are on the Board and also in the management of the Oil and Natural Gas Commission. In order to maintain the integrity of the Board, the aim should be a gradual process of whole-time service on the Boards by Civil Servants.

### Members of Parliament

Members of Parliament have been discarded by Mr. Gorwala "not only in order to avoid overlapping of responsibility but also from the point of view of maintaining the integrity of political life."<sup>1</sup> But in actual practice, M. Ps have been given a substantial place in the Boards of public corporations in India. From a practical point of view, we cannot but appoint outside talents to serve on the Boards. The search for "best brains" cannot possibly be confined to any particular class and nowhere any particular class or classes can be chosen for manning the Boards. A Board, in order to have efficiency, should be composed of various talents. Certainly, a conglomeration of talents and experience in different fields on the Boards can ensure success but care should be taken about members being "independent from politics". M. Ps are generally discarded so that political outlook and influence may not permeate a public corporation as M. Ps are generally partisan in their outlook having particular political leanings emanated from the party politics. The position of an M.P. as the chairman or a member of the Board is not also so comfortable as he is bound to be debarred from taking part in the discussion on the undertaking in Parliament, as he can neither defend nor sit back in judgment of the actions of the Board of which he is a part, but on the other hand, he can hardly remain unconcerned if certain inexpert criticism is levelled against the enterprise in the House. The position would certainly be embarrassing, and, therefore the appointment of M. Ps on the Board is "altogether an unhealthy practice and difficult to justify".<sup>2</sup> The area of choice is no doubt much narrowed if M. Ps are

<sup>1</sup> Gorwala A. D.—Ibid. p. 19.

<sup>2</sup> Krishna Menon Committee Report op. cit. para 44.

discarded and also a large number of able and talented personalities are thus kept outside the choice, but to maintain the integrity of a Board, M. Ps should not be generally appointed, and they should resign their position as M. Ps on appointment to the Boards.

### Representation of Interests

The model Board visualised by the Krishna Menon Committee, though appears to be a selection broadly on the conception of the British and French Boards, is more of the French type than the British. In Britain, Civil Servants and M. Ps are a few on the Boards of the corporations ; representation of interests has been wholly discarded to maintain the autonomy and integrity of the Boards, while the French Board is a trio having equal representation of the State, employees and the consumers. Though labour representation is discarded, that does not mean, however, that on the Boards of the public corporation there is no Trade Union Official. Regarding representation of interest, in the U.K., the Trade Union Congress issued a report in 1944 disavowing direct representation on the Board. But in practice, there are Trade Union Officials as members who have to give up connection with such unions for which they used to work. Similarly, in Canada, direct representation of organised farmers on the corporation Boards was not favoured when option was given in 1944 for direct representation on the Board of the Agricultural Prices Support Board or to have an Advisory Committee. The Board of "interested persons" has been described as "an ill-digested conception of democratic perfection which advocates control by a representative of every institution, from Learned Societies to Housewives, which could conceivably claim any sort of interest in the activities of the proposed undertaking."<sup>2</sup> The tendency in the developed countries, therefore, is to do away with interests representation on the Board ; but this does not, however, prove that interests are not represented. These are represented through Advisory

<sup>1</sup> G. D. H. Cole : *The Post-War Conditions of Britain* (1956) p. 119.

<sup>2</sup> R. H. Thornton : *Nationalisation—Administrative Problems inherent in a State-owned Enterprise in Public Administration*, Vol. XXV, 1947 p. 10.

Committees, Consumers' Councils etc. In India, the Board are of heterogeneous composition but the labour members as in the Industrial Finance Corporation or Airlines Corporations do not represent the workers of the corporations as such and are also not the employees of the corporations. Similar also is the case with the Boards under the company type.<sup>1</sup> Truly, an assemblage of diverse and conflicting interests not only foil the harmony of administrative functions but occasionally, "frustration and deadlock, log-rolling and jockeying for position are much more likely to result from juxtaposition of discordant elements."<sup>2</sup> If interests of each class are thrust upon the administration without due tolerance and concession of a team spirit, the result is bound to be disastrous. The proper objective of a corporate body should be weighed if the representative Board is to contribute its share to the developmental programme of State enterprises. But a team work conditioned by good education, inner search, progressive outlook, patriotic fervour and sacrificing spirit of the men. Interest representation should be, in general, done away with in the case of the Board of a public corporation. The French Boards representing three interests—Government, employees and consumers have been characterised as "the weakest feature of the French legislation and is a threat to the successful operation of the French nationalised industries."<sup>3</sup> In the Indian cases this matter should receive more important consideration as the background of successful interest representation is not sufficiently prepared and this feature can go more to mar than make the enterprise. The "interests" should, therefore, be represented not on the Boards but on the subsidiary or ancillary Committees<sup>4</sup> because, "the conception of a Board as a meeting place for the representatives of interests is wholly mistaken"<sup>5</sup>

The composition of the Indian Boards is not confined to any particular class or classes but people drawn from different fields—from Civil Servants to Trade Unionists. The men are drawn from public life, industries and professions. Regarding

<sup>1</sup> U. N. Seminar, New Delhi, 1959, op. cit. paper No. 26 pp. 6-7.

<sup>2</sup> W. A. Robson : Ibid. p. 263.

<sup>3</sup> W. A. Robson : Op. cit. p. 262.

<sup>4</sup> The Estimates Committee—16th Report 1954-55 p. 5. .

<sup>5</sup> Robson W. A. : Ibid. p. 94.

membership of the Boards sometimes an analogy is drawn with the posts of judges which are said to be filled up by men with highest achievement in legal profession and who sacrifice enormously their money incomes to discharge their public duty. It is believed that given proper dignity and status to the membership of the Board of a public corporation, talents can be invited to serve on the Boards at a sacrifice of monetary gains, being imbued with a patriotic spirit.<sup>3</sup> This belief would prove sufficiently true in India if the authorities really bestow upon the members of the Board a well-recognised position not below that of a Civil Servant.

### Whole-time or Part-time Members

It has already been emphasised that the utility of a corporate Board depends upon the nature of the Board and the extent of power it enjoys. A full-time member Board is undoubtedly superior to that of part-time member Board. But the serious obstacles to put this in effect is the dearth of personnel to man the Boards on the whole-time basis. Part-time membership can, therefore, hardly be avoided, though in this the risk of of the part-timers becoming a dilettante body of amateurs cannot be ruled out. But "the advantage of part-time members", observes Prof. Robson, "is that they bring an element of outside experience into the higher direction and ensure that the undertaking shall not determine its policy solely in terms of its own outlook and interests", whereas, "the disadvantage of part-time members is that where the service is highly technical in character or surrounded with a mass of detail not easily mastered by a cursory survey of occasional memoranda, the part-time members are unlikely to possess an adequate knowledge of the subject-matter or sufficient grasp of the main problems to be able to play a part of real importance in influencing policy".<sup>2</sup> Mr. Morrison advocated part-time members for Transport Commission for their "bringing in experience from outside to prevent the Commission becoming too monastic and to bring a breath of fresh air."<sup>3</sup>

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<sup>1</sup> Robson W. A. : *Public Enterprise* p. 373.

<sup>2</sup> Robson W. A. : *Public Enterprise*, p. 371.

<sup>3</sup> 509 H. C. Deb. (Dec. 18, 1952) Cols. 1707 ff.

The Indian Boards are preponderantly composed of part-time members. The only exception was the Damodar Valley Corporation Board which had in the beginning all the three whole-time members but as a result of an amendment of the D.V.C. Act in December, 1957, the Board was reconstituted in April, 1958, with the Chairman as the only full-time member and the other two are part-time members. But at present all the three are part-time members. Of the total 141 members of the Boards of public corporations in India, only 17 members are for whole-time. The consensus of opinion is on the whole-time service of the Chairman on the Board<sup>1</sup> although opinion about having a titular Chairman and a whole-time Managing Director was also expressed.<sup>2</sup> But the A.I.I. has a part-time Chairman, and the Employees' State Insurance Corporation has no whole-time member on the Board. No whole-time member Board seems possible in India at this stage, especially in industrial and commercial fields, as the successful men in the private sector, who "are sensitive people wanting freedom and scope for initiative and enterprise and a share in the profits arising from their better skill",<sup>3</sup> cannot afford to serve on the Board for whole-time. Theoretically, the whole time Board is by far the best but from a practical viewpoint India can little expect to have whole-time. Theoretically, the whole-time Board is by far the present juncture of the situation. If the whole-time Board is strictly adhered to, it is bound to be of small size and in such case valuable advice and service of the able persons who cannot offer whole-time service may be lost which may harm the enterprise in one way or the other. The best solution is, therefore, to establish "mixed" Boards composed of whole-time and part-time members but the principle should be generally not to appoint any official on part-time basis with dual rôle to play as he must owe full allegiance to the Corporation.

<sup>1</sup> The Chief of the Rehabilitation Finance Administration is called the Chief Administrative Officer and not Chairman—sec. 4(c) of the Rehabilitation Administration Act, 1948.

<sup>2</sup> I. I. P. A. Seminar Report, op. cit. p. 28.

<sup>3</sup> Jain P. C. : Article entitled "*The Management of Public Enterprise in The Statesman*", Calcutta dt. 26. 1. 60.

## Size of a Board

Limitation of available talents tends to limit the size of the Board, and to determine the size of the Board is not a less important problem for the Indian public corporations. Indeed, the size of the Board cannot be conceived by any fixed formula as different enterprises demand different talents and this tends to influence the size as well as the composition of the Board. The size of a Board will also vary on the nature of the Board. A policy Board requires less number of personnel than the functional Board would require. In India, although the policy-making Board seems to be an accepted principle, the sizes vary enormously. The smallest Board is the Damodar Valley Corporation that consists of three members and the largest is the Board of thirty-four members of the Employees' State Insurance Corporation, and the sizes of the other corporations are between these figures. The Rehabilitation Finance Administration has 9 members, the Industrial Finance Corporation Board is composed of 12 members, the Indian Airlines Corporation has 9 members and its counterpart the Air India International has a Board of an equal number of members, the Life Insurance Corporation has a Board of 15 members, the Central Warehousing Corporation 14, while the second largest Board is of the State Bank of India a composition of 20 members. The D.V.C., modelled on the T.V.A. of the United States of America, has conceived a policy Board of three members as in the T.V.A., and the Board has creditably discharged its functions.<sup>1</sup> But a small Board has its drawbacks which were demonstrably reflected in the first few years of the T.V.A. as there the Board turned virtually into an one-man control inasmuch as the Chairman, Dr. Morgan wanted to assume the supreme control much to the dissatisfaction of the other two members and this precipitated into a serious discord and the Board members could hardly work as a team. Dr. Morgan was on this issue characterised by President Roosevelt as a man "temperamentally unfitted to exercise a divided authority".<sup>2</sup> But this is a solitary example of smallness of a Board where it was reduced to the position of an one-man dominated Board. But

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<sup>1</sup> Prof. Hart : *New India's Rivers* p. 166.

<sup>2</sup> *Senate Doc. No. 155, 75th Congress, 1938. 3rd series, p. 9.*

its counterpart in India, the D.V.C., has no such reproachable accounts of its own and no serious discord amongst the members was ever recorded to pin-point the dominating tendency of the Chairman, and on the contrary, the tendency is always to have unanimous decision of the Board members, as in the T.V.A. at present.<sup>1</sup> The Chairman of the Board must, of course, be a man of personality having ability to co-ordinate the conflicting views of the members as well as resolve the disputes between discordant members occurring at any time in order to ensure a team-spirit in conducting the affairs of the corporation, without, however, showing a domineering tendency over other members. "However competent individuals may be in their own fields", remarked the Fleck Committee, "it is no use appointing them to the Board, if their personalities are such that they cannot work together as a team".<sup>2</sup> It is, therefore, not the size of the Board but the unity of minds of members that is the key-note of the success of a public enterprise.

While no hard and fast rule can be laid down as to the size of the Board, the ideal size of a Board appears to be that it should neither be too small to be dominated by any single man nor too large, so that its members can "become a genuine team."<sup>3</sup> It is pertinent to decide about the variableness or rigidity of the size. Mr. Gorwala is of opinion that at the outset the size of the Board should be fixed and "not to leave it variable".<sup>4</sup> In an expanding economy where the situation is subject to variation due to many factors, necessity may sometimes arise to introduce more members to the Board either with a view to injecting new blood or for expansion of the plan programmes of the enterprise. Public corporation in India, in its infancy of this institutional innovation, is bound to be susceptible to the changed economic and political situation in course of practical working, and there might be an urge to modify the views on the rigidity of the size of the Board. "Flexibility of numbers is undoubtedly an advantage in relation to a governing Board," observes

<sup>1</sup> Roscoe Martin (Ed): *Op. cit.* p. 48.

<sup>2</sup> *Report of the Advisory Committee on Organisation* (appointed by the Coal Board) para 66.

<sup>3</sup> Thornton R. H. : *Op. cit.* p. 12.

<sup>4</sup> Gorwala A. D. : *Ibid.* p. 22.

Prof. Robson<sup>1</sup>. The Estimates Committee in its 16th Report on "Organisation and Administration of Nationalised Industrial Undertakings",<sup>2</sup> has advocated for a Board of 3 or 4 members, one being the Chairman. The Krishna Menon Committee has laid down a small Board between 5 and 9 members according to the size and the nature of the enterprise.<sup>3</sup>

The Boards of some public corporations in India seem to be too large<sup>4</sup>. The size of a Board is certainly to vary from institution to institution according to its design, magnitude and problems. Nonetheless, the reasonableness of the size should be determined and variation should not be very large, and the variation is to be allowed only when it is considered "worthwhile seizing the opportunity to appoint a man of unusual ability at the moment when he happens to be available". The composition of the Board should always aim at harmonious administration by the members to achieve the avowed objectives of the undertaking.<sup>5</sup> The conception of size is nowhere uniform. As for example, in Britain, the Board of the Port of London Authority has membership between twenty-eight and thirty, the British Broadcasting Corporation has seven Governors; the National Coal Board that commenced on rigidly defined size of the Board of a Chairman and eight other members, was converted into a flexible type by the Amending Act, 1949, and the number now may fluctuate between eight and eleven. The Nationalisation Acts of Great Britain, except in the case of Bank of England, also provide for variable sizes of the Boards stating the upper and lower limits. The area Boards also have such variability. But this "maxima and minima follow no fixed rule"<sup>6</sup> The tendency is to allow the Minister to enlarge or reduce the Boards as the expediency of the case would dictate. In the T.V.A., the size of the Board is fixed by the Act.<sup>7</sup> In Canada also, the sizes of the Boards are variable and the association of Government officials

<sup>1</sup> *Nationalised Industry and Public Ownership*. p. 124.

<sup>2</sup> *Op. cit.* para 7.

<sup>3</sup> *Op. cit.* para 25.

<sup>4</sup> The Employees' State Insurance Corporation with 34 members; The State Bank of India with 20 members.

<sup>5</sup> Cf. The T. V. A. Act, Sec. 2.

<sup>6</sup> Robson W. A. : *Ibid.* p. 213.

<sup>7</sup> Sec. 2 of the T. V. A. Act.



and part-time members has made the Board generally large. In the German Federal Republic, the Board of Directors (Verwaltungsrat) comprises twenty members, who are appointed by the Federal Government after consultation with Bundesrat (Upper House of Parliament), and this Board is "responsible for decision of major importance".<sup>1</sup> In Japan, the Board of Directors of Japan National Railways Corporation has five part-time members and a Chairman, and thus "the Board has no more than nominal existence".<sup>2</sup>

The Indian Public Corporations Acts, however, do not, in general, provide for the minima for the size of the Board but the maxima are stated in the Acts. Section 10 of the Industrial Finance Corporation Act specifies the members of the Board from different sources in definite numbers ; Section 4 of the Life Insurance Corporation Act states the upper limit of the number of the Board as "not exceeding fifteen" and the maximum appointment is already there ; Section 19(1) of the State Bank of India Act and Sec. 3(1) of the Reserve Bank of India Act define the members from various sources and this is rigidly followed. The Air Corporations Act in Section 4(1), however, states the upper and lower limits of the Board as "not less than five and not more than nine members" including the Chairman. In practice the maximum number has been appointed in both the corporations. The tendency in India is to man the Boards with the maximum number of members as provided in the Acts. In general, there is little variation in the Board personnel during the tenure of a member unless there is compelling reason for the Minister to remove a member on adequate reasons. The maximum appointment at any time seems not a very prudent policy as it bars the entry of any worthy man at a future date. The wisdom of introducing variability in the size of a Board lies in giving the Minister power to enlarge it by injecting additional members to bring about a change in outlook as well as to exercise his "reserve power to override a recalcitrant Board by swamping it with

<sup>1</sup> Hanson A. H. : *Public Enterprise* p. 226.

<sup>2</sup> Shiro Ikabe : *Public Corporation in Japan in Indian Journal of Public Administration*, Jul.-Sep. 1955 p. 219.

persons in agreement with his policy".<sup>1</sup> This difficulty can be solved by keeping one or two posts vacant to be filled up in shrewd judgment of the situation by a deft personality.

The ideal size of a Board cannot, however, be stated in definite terms as the conception varies from one authority to the other. For example, Prof. Dimock considers the minimum size of three and maximum of nine as a convenient size for the Board of a Government-owned corporation<sup>2</sup> while Mr. Gordon thinks the Board of five to nine as helpful, as he says, "the most satisfactory Board is small, containing from five to nine members".<sup>3</sup> But Prof. Robson is in favour of "flexibility of numbers" for "Ministers to have a certain latitude in determining the size of the Board".<sup>4</sup> The British industries have favoured an average Board of seven to eight members. India seems to be in favour of an average of nine members although larger Boards have been conceived in special circumstances. Indeed, there is no magic in a particular number and the objective of appointing a Board is for the efficient running of the enterprise and this is ensured by a reasonable size of a Board for an effective, co-ordinated action. It is, however, felt that the Boards of larger sizes should be whittled down to a manageable size which should be fixed at a minimum of five and maximum of eight members including a Chairman, and in which the membership of full-time and part-time member should be normally in the ratio of 50 : 50, where full-time Board cannot be set up.

### Tenure of Office

The immediate problem that follows is to determine the tenure of office of the Board members. The public corporation Acts and Rules have provided the tenure of the Board members but it is differently stated. In the L. I. C., an official member enjoys the office "during the pleasure of the Central Government"

<sup>1</sup> Robson W. A. : Ibid. p. 36.

<sup>2</sup> Dimock M. E. : "*Principles underlying Government owned Corporations*" in *Public Administration*, 1935 p. 35.

<sup>3</sup> Lincoln Gordon : *The Public Corporation in Great Britain*, 1938 p. 325.

<sup>4</sup> Op. cit. p. 93.

and a non-official member for a period of two years "unless a shorter period is specified in the order of appointment".<sup>1</sup> In the State Bank of India, the Chairman and the Vice-Chairman hold office "not exceeding five years". Similarly, the Reserve Bank of India Act provides terms for office of the Governor and a Deputy Governor "not exceeding five years".<sup>2</sup> But the terms of the other Directors vary both in the State Bank and the Reserve Bank for which office though a term of four years has been provided for, the tenure of the offices of the Directors, however, varies largely ranging from one year to three years according to the source of their nomination. There is provision for staggering of appointments, and this is desirable to maintain a continuity of policy and administration.<sup>4</sup> Section 11 of I. F. C. Act provides that a nominated Director "shall hold office during the pleasure of the authority appointing him", and an elected director holds office for a term of four years. There is also provision of staggering of appointments.<sup>5</sup> A conspicuous difference is noticeable in the case of Air Corporations where the tenure of the members of the Board is not specified and neither is there any discrimination between the Chairman and the other members. In Air Corporations the members "shall ordinarily be entitled to hold office for the period in the order of appointment".<sup>6</sup> But the members may at any time resign his office, and this has the similarity with the case of L. I. C. members.<sup>7</sup> In fact, with regard to resignation of office, the members have unfettered freedom in offering resignation that takes effect "from the date on which it is accepted by the Central Government". But the dismissal is not easy and it can hardly be resorted to unless there is flagrant abuse of position by a member, and a reasonable opportunity of showing cause is allowed. Provision has been made in all Acts to fill up casual vacancies and the incumbent is to continue for the rest of the term of that office. An outgoing member is eligible for

<sup>1</sup> Rule 3(1) and (2) of L. I. C. Rules, 1956.

<sup>2</sup> Sec. 20(1) of State Bank of India Act.

<sup>3</sup> Sec. 8(4).

<sup>4</sup> Gorwala A. D. : *Op. cit.* p. 22.

<sup>5</sup> Proviso to Sec. 11(2) of I. F. C. Act.

<sup>6</sup> Sec. 5 of Air Corporations Act.

<sup>7</sup> Clause 4 of the Life Insurance Corporation Rules.

reappointment but there is restriction in the tenure of a re-appointed member in some corporations. For example, in IFC a Director "shall be eligible for re-election for not more than two full consecutive terms after the rotation of elected Directors has begun".<sup>1</sup> But no such restriction is there in the case of Reserve Bank of India<sup>2</sup> or the State Bank of India<sup>3</sup> where it is provided that a retiring Director is eligible for re-election or re-nomination.

The tenure of office of the members of the Board is required to be determined judiciously. The term of office should not be too short to disallow any opportunity of introducing innovations and new techniques and procedure by the Director or Directors in office; neither should it be too long to shut out against introducing new blood in the corporate body for a long space of time as this may be detrimental to the interest of the enterprise itself. The provision of re-appointment is undoubtedly healthy as the member who have already demonstrated their worth and skill can certainly put up their claim to continue to serve on the Board. The British experience shows that except in the case of Air Corporations and the Coal Board, there "have been few changes in the membership of the Boards since they were first set up".<sup>4</sup> In India, there have been some changes in the personnel of the corporation Boards as a matter of necessity either due to resignation, or recalling of the members of Civil Service to the departments or giving them some other assignments as in the case of D. V. C.,<sup>5</sup> or removal of the members in the exigencies of the circumstances as in L. I. C.<sup>6</sup> or for strengthening the organisation, as a new member was put in Air Corporations.<sup>7</sup> But preponderantly, the changes have

<sup>1</sup> 3rd Proviso to Sec. 11(2) of I. F. C. Act.

<sup>2</sup> Sec. 8(7) of Reserve Bank of India Act.

<sup>3</sup> Sec. 20(3) of State Bank of India Act.

<sup>4</sup> Acton Society Trust : *The Men on the Boards* p. 14.

<sup>5</sup> Mr. P. S. Rau was transferred with new assignment in Dandakaranya.

<sup>6</sup> The Chairman Mr. Kamat, was removed in early 1960 ; Mr. L. S. Vaidyanathan was dismissed in early 1960.

<sup>7</sup> Changes occurred in the Chairmanship of I. A. C. in early January, 1959 ; of course, the largest changes in the Board have been made in the case of the Air Corporations.

occurred in the phase of new ideas and concept of the Board, and the new principles and outlook acted mainly to dissociate the part-time members of Civil Service as far as possible from the Boards. As for example, in the composition of the LIC Board Mr. H. M. Patel, I. C. S., the then Secretary, Ministry of Finance, was made the Chairman which office was later on replaced by a full-time member. The Air Corporations Act provide for interlocking of members for both corporations both in the office of Chairman or as a member,<sup>1</sup> and in practice, this has been put largely into effect, for instance, Mr. Shankar Prasad, I. C. S., was the Chairman of the I. A. C. as well as a Member of the A. I. I., Mr. J. R. D. Tata is the Chairman of the A. I. I. and at the same time a member of the I. A. C. Besides that there are members in common in both the Corporations. This type of common membership in the Boards is not disfavoured and the Estimates Committee, while recommending a common Corporation for both Air services has gone to suggest for the present a common Board as the present members are mostly common in both the Boards. The Committee stated that "if the two Corporations are to continue as separate entities the feasibility of having a common Board for the two Corporations should be examined, particularly as at present seven Members out of nine are common".<sup>2</sup> The interlocking of membership would certainly find a person holding different tenures of office in different Corporations as the tenure is attached to the post and not to the man.

The provision of law and the experience of the other countries give rather a different picture. In the T. V. A., the term of office is for nine years with the provision of staggering of the terms of office of the Directors "designed to produce a consistency and continuity in policy which might not be possible if the re-appointment of all Directors fell at one time".<sup>3</sup> In the case of D. V. C. no tenure is fixed by law and the practice is for a member to continue unless he is withdrawn, transferred or dismissed by the Government. Since the D V C Amending

<sup>1</sup> Proviso (a) and (b) to Sec. 4(1) of the Act.

<sup>2</sup> 41st Report, 1956-57 para 34.

<sup>3</sup> Herman Finer : *The T. V. A.—Lessons for International Application* (1944) p. 129.

Act, 1957, many changes have occurred in the membership of the Board within a short period.<sup>1</sup> In Britain also, the legislation is not uniform. The Bank of England Act, 1946 fixes the term of offices of the Chairman and Deputy Chairman for five years and for other Directors at four years and this is on the lines of the provisions of the Reserve Bank of India and the State Bank of India Acts. The members of the Air Lines Corporations in Britain are to hold office according to the "terms of the instruments appointing them". Some of the Nationalisation Acts provide for the tenure to be determined by the ministerial regulations which, in general, have provided for the appointment to be "for such term, not exceeding five years as may be determined by the Minister before appointment of such member".<sup>2</sup> In Canada, the statutory provisions about the tenure are not uniform. The Canadian Railway Boards provide for five-year term of office, while the members of the Wheat Board hold office on "good behaviour." The Directors of Crown companies "virtually endorse their discharge papers at the time of their appointment and the Minister is free to remove them at any time".<sup>3</sup> Similarly, in the Iron and Steel Corporation in Great Britain the office of a member might be declared vacant at any time by the Minister.

The tenures of offices of the members in all countries, however, converge in one point that the term is for a limited period and not for life. The wisdom of the limitation of tenure lies in the fact that the enterprise can constantly be injected with new blood and brains to impart a life-force in the Board by introducing innovations, new ideas and a fresh outlook through new men. One distinctive difference should, however, be kept in mind to determine the tenure in an under-developed country. India, for example, unlike Great Britain, has not stepped into the shoes of already established, going and developed enterprises but has, as a matter of exigency, set her foot on an untrodden path of economy, and problems are manifold. A new enterprise calls for not only skill, deft, acumen and sincerity of the personnel

<sup>1</sup> Mr. P. S. Rau and Mr. Shenoy were withdrawn from DVC.

<sup>2</sup> See Robson op. cit. pp. 105-6.

<sup>3</sup> Prof. J. E. Hodgetts : *The Public Corporation in Canada in Public Administration* 1950 p. 286.

but also a reasonable opportunity and period of time to assert themselves in the field. Initial phases of the setting up of an enterprise are likely to meet with errors and lapses in course of working which would necessitate changes in policy and modes of its implementation. And this is a matter of time. If the Directors are denied a reasonable tenure of office to make sure of their success in the venture they are likely to feel shaky in their continuing in the posts over a short period or may think the tenure too short to make any modification or new formulation of the policy and methods possible, and the progress of the enterprise is bound to suffer. In the initial period an enterprise needs a sound operative management skill and an efficient Board with assured tenure for a reasonable period. To determine a "reasonable" period of tenure is no easy task, for what tenure may be considered quite suitable for a Board of an undertaking in a developed economy may be thought too short for an undertaking in an under-developed economy where experiments may consume more time before monuments are actually installed, and this calls for a longer tenure of office of the members at the helm of affairs. But this does not mean, however, that the tenure should be for an indefinite period nor does it suggest for an unusually long period. The objective is to provide reasonable security of tenure to the members to have the opportunity to demonstrate their worth and ability within the term of office. It is not desirable to have frequent changes in the personnel of the Board as it would tend to reduce the enterprise into a training platform as well as it would go to mar the "continuity of policy and administration". The practice of rotational retirement of Directors in Joint Stock Companies should never be extended to a public Board in the initial period of an enterprise and in case of a member's inefficiency or otherwise, the Minister's power to cashier him at any time is sufficiently salutary in effect. The unhealthy practice of frequent changes of the Board personnel can be illustrated by the recent changes in some public undertakings. Mr. J. M. Srinagesh has been made the Chairman of the Hindustan Steel when his services for the construction of Barauni and Gauhati Oil Refineries were most needed. Similarly, Mr. Kamat was withdrawn from the L. I. C. and was made the General Manager of the Barauni Refinery Project and hardly did he give six months

there when he was taken out of the Project to be appointed as the Member-Secretary of the Third Finance Commission. The tenure of the Board members, according to Mr. Gorwala should be four or five years, whereas the Krishna Menon Committee upholds a tenure of the Chairman for three years with renewal of appointments subject to the rules, pertaining to the age of superannuation, while for the other members, the tenure be fixed for two years with eligibility for reappointment for one term or more. So, here is a difference in the conception of tenure of the Chairman and other members possibly on the ground that the Chairman should be a full time member. Nevertheless, tenure should not be rigidly be fixed for other members. In the initial period, in our opinion, the tenure should be fixed for five years for all members with renewal of office for another term of three years, and in this regard the appointing authority should have robust outlook.

Interchangeability of personnel between the different Boards can prove a great virtue in the nationalised industries. This is specially so, in the Indian conditions where acute shortage of talent and skill can be compensated by interchangeability of members with a view to introducing innovations and healthy changes. The Fleck Report which recommended for choosing the full-time members from within the industry was criticised in some quarters for putting too much emphasis on inbreeding and shutting out capable men from different walks of life and thus losing "the benefits of cross fertilisation which could come from frequent interchange and mobility at all levels of the public sector of economy".<sup>1</sup> Indeed, cross-fertilisation has the beneficial effect to act as a life-force and inspiration for a public undertaking and provision should be there for interchangeability of the personnel between the different Boards in the public corporations. The instances of transfer of Board members are rare though promotions from lower tier to higher tier or from ordinary membership to Chairmanship,<sup>2</sup> and also there are board members functioning as executive heads.<sup>3</sup> But these are short

<sup>1</sup> *Political Quarterly* Oct.-Dec. 1955 : *Nationalised Industry* —A *New Phase*—Notes and Comments, p. 102.

<sup>2</sup> Mr. Verma, a Member, was made Chairman of the D. V. C.

<sup>3</sup> Air Corporations Boards in India are the instances.



of expectation and what India needs today is the provision and practice of transferability of Boards personnel from one Board to another for exchange of ideas and experience for all-round success of the public sector. "The Industrial Management Pool" scheme in India has provided for transfer of executive personnel between different public enterprises but no such provision is laid down anywhere regarding Board personnel. Members have been called back in certain cases to their original assignments and appointed afresh in another public enterprise under the new instrument of appointment<sup>1</sup> but interchangeability is still unseen. In a developing country the absence of interchangeability between Board members is a great weakness and needs correction.

### Appointing Authority

To determine the appointing authority of the members of the governing Boards is not free from controversy. The top Civil executive appointments are recommended by the Union Public Service Commission in India and the Government generally honours the recommendations. Now, the question is whether the members of the Boards should also be appointed on the recommendation of the U. P. S. C. and if not, who should be the appointing authority? In the U. K., the members of the Board are all appointed by the Ministers. Prof. Robson supports the Minister's power of appointment<sup>2</sup>. In the U. S. A., the President is the appointing authority, and in the case of the T. V. A., the President is given a very important position as to the appointment and dismissal of the Board members<sup>3</sup>. In Canada, members of the Board are generally appointed by the Governor-in-Council, i.e. the Cabinet. For the Indian Boards, Mr. Gorwala emphasises the power of the Minister to appoint the Chairman and members of the Board.<sup>4</sup> So also, the Krishna Menon Committee emphasises that the power of appointment must, however, rest with the Minister.<sup>5</sup> In all statutes also the power of appointment has been vested in the Central Government that acts through the appropriate

<sup>1</sup> D. V. C. is a case in point.

<sup>2</sup> Ibid. p. 325.

<sup>3</sup> Sec. 2 of the T. V. A. Act, 1933.

<sup>4</sup> Ibid. p. 17.

<sup>5</sup> Op. cit. para 27.

Minister. The position of the Board vis-a-vis the Minister has been discussed in a later Chapter<sup>1</sup> and here the discussion is confined to determine how far the power of appointment and dismissal of the Board vested in the Minister is tenable in the Indian condition. Undoubtedly, the Minister has to play a vital role in the field of public enterprise but whether a single Minister should have absolute power to appoint and dismiss the members according to his choice and desire is a knotty problem, the solution of which is far from easy. It is not quite understandable why one should be allergic to any independent body with power to recommend such appointment to the Government. An intermediate body "to act as electoral college for the nationalised Boards" is opposed.<sup>2</sup> But the internal conditions in all aspects of an under-developed country need to be considered before framing any premise. Why an impartial body of eminent men in different walks of life, free from politics, be not set up to recommend appointments to the Boards and in case of non-acceptance of any recommendation, the facts be known to the public for their critically examining the position? In fact, there should be in general no objection to it. But there are difficulties. The appointment to the Board is unlike any other administrative appointment and here the offer of appointment is to come from the appointing authority without any candidature for it. The choice of personnel is dependent on a shrewd judgment not so much on the past performance of the incumbent but on his potentiality in the enterprise<sup>3</sup> for "it is quite possible for a man who has shown real distinction in ordinary business or manufacture, or in a Government department, to be of little value on the Board of a public corporation".<sup>4</sup> Any independent body can hardly exercise its functions without active co-operation of the Ministry and the Government to find out the proper personnel, and there would be a duplication of functions for the same set of work. Further, the difference of opinion between the recommending body and the appointing authority may open the floodgates of criticisms which may impair smooth sailing of the

<sup>1</sup> Chapter V.

<sup>2</sup> Robson W. A. : Op. cit. p. 95.

<sup>3</sup> Gorwala A. D. : Op. cit. p. 17.

<sup>4</sup> Robson W. A. : Ibid. p. 97.

developmental programme and put shackles on the ministerial powers and actions. The power of appointment should, therefore, remain with the governmental authority but instead of the Minister's enjoying unfettered powers, the appointment or dismissal should be subject to the approval of the Cabinet, and the Cabinet should not indulge in the habit of giving "ditto" to the Minister's action, but should assess the position and justifiability of appointing or dismissing a member in particular circumstances. It would be ungenerous if this suggestion is construed as an attempt towards curtailing the Minister's power ; on the contrary, the Minister's wisdom of action will be amply demonstrated through the Cabinet's ratifying his action.

### Conditions of Service

The condition of service is as important as anything else, and the "best brains" can hardly be attracted unless lucrative terms are offered. The men of genius and energy are undoubtedly to be secured to be placed at the "summit" of the public corporations, and there should be no niggardliness in the offer of remuneration to an able man. One of the features of mixed economy lies in drawing away personnel from one sector to another and in India complaint is too frequent from the side of the Government that "their departments and State enterprises are being raided upon by the private enterprises, and many technicians are deserting Government offices<sup>1</sup>". To allay this apprehension, terms of employment must be made attractive at different levels of employment also. The Herbert Committee Report on the British Electricity Industry observed "If the Boards are to be run as a commercial enterprise (and we think that they should) the remuneration of the men who run these enterprises should be on a level commensurate with their abilities and their market value"<sup>2</sup> For the Indian public corporations too, Mr. Gorwala has remarked, "If good men are wanted, especially from business, there should be no objection to paying sufficiently high salaries"<sup>3</sup> Indeed, the remuneration for the top personnel of a public corporation must be attractive. In India, the Indian

<sup>1</sup> I. I. P. A. Seminar New Delhi Dec. 1957, op. cit. p. 39.

<sup>2</sup> *Report of the Committee of Inquiry into the Electricity Supply Industry*, Jany. 1956. M. M. O. Cmd 9672, para 314—.

<sup>3</sup> *Ibid.* p. 22.

Civil Service or Administrative Service carries the highest salaries and it is pertinent to give a thought over this feature on a comparative view of the extent of salaries offered to a Board member. Wide disparity in the remuneration and other amenities are noticeable between the public sector and the private sector, and the condition of employment in Government enterprise appears to be too sullen to attract men from the private sector.<sup>1</sup> But such disparity between the public and the private sectors is not, however, peculiar to India as almost in all countries especially in the under-developed region, this feature is well marked. But the danger does not lie there ; it lies in the disparity of remuneration between the Civil Service and the public under-takings. If the remuneration in the public corporation is much higher than that in a Civil Service, there is bound to be discontent and jealousy, and here the British experience is well worth to draw upon. In Britain, following the recommendations of the Chorley Committee, such disparity in remuneration that existed before the war has been substantially reduced. The Civil Service in India is held in high esteem for the status, dignity and recognition that it carries along with it, and it is doubtful whether the same recognition can be extended to the Service on the Boards of public corporation. It is, therefore, in the fitness of things not to assimilate the remuneration of the Board's members to the scales of the Civil Service. But the disparity must, however, be kept within reasonable limits to keep away the resentment or jealousies, or self-conceit and superiority complex of the one side or the other on this count. Certainly, the Indian economy cannot afford to pay salaries in the public sector enterprises as high as in a nationalised industry of a developed country or that exists in the internal private concerns for obvious reasons. The only alternative remains, therefore, is to bestow on the Board a high recognition of prestige and dignity<sup>2</sup> and inculcating in the men a self-sacrificing spirit and an urge to serve on the Boards at a reasonable remuneration for the uplift of the country.

But the success of a public corporation would undoubtedly depend upon the judicious choice of men to serve on the Boards

<sup>1</sup> Estimates Committee 19th Report (1957-58)—Government reply to the recommendation of the 16th Report, Serial no. 14 p. 9.

<sup>2</sup> Robson W. A. : N. I. & P. O. p. 242.

who should regard themselves as high custodians of the public interest, and it calls for flexibility of operations so that the Board can exercise its functions without any shackles on its autonomy from the top, and unhindered by the rigid frame-work of process and procedure. The success of the T.V.A., as Dr. Karve observes, has largely been achieved by shedding the rigid ideas of procedure and precedent and devising its own institutional devices and in it "democracy and efficiency are both utilised as aids to growth and are on no account permitted to be used as excuses for stagnation"<sup>1</sup>. The efficient conduct of the enterprise, however, depends very much upon the scrupulous regard for the autonomous character of the Board on the one hand, and intelligent public opinion focussed on its working on the other.

<sup>1</sup> Dr. D. G. Karve—*Some reflections on the TVA in Indian Journal of Public Administration* April-June, 1957, p. 103.

## CHAPTER IV

### INTERNAL MANAGEMENT

Admittedly, the success of an enterprise is not ensured by a formulation of a sound policy alone at the top but by its efficient and effective execution through a well-knit frame of internal management. A sound internal management system is as important as a sound Governing Board, as the internal management pervades the whole of the enterprise reaching to the grass-root. The power generates at the top in the body of the Board and is transmitted through the frame of the internal organisation, and the transmitting organ should be receptive as well as distributive in character in true sense. Modern economic planning envisages an enterprise on the national level and the operations of the enterprise are spread over the whole country or in different regions, and this extensive undertaking requires a most sound internal management organisation for its success.

#### Single Administrator or a Boards of Management

Whether the management should be given over to a single administrator or a Board of Management is a difficult issue to decide upon. The Board that does not assume functional responsibilities, should find some medium through which its policy can flow to the bottom. The problem here is "to divorce the two ideas of authority and administration of authority".<sup>1</sup> A separate administrative organisation is, therefore, an accepted principle in the modern economy of large-scale undertakings. Modern undertakings of large dimension are complex and diverse in many ways and "the unit seems to be spread too widely for one or two men only to hold the whole of it before their minds as an entity

<sup>1</sup> David E. Lilienthal—*T. V. A. : Democracy on the March* 1953, p. 141.

and at the same time control it in the requisite detail".<sup>1</sup> Certainly, there must be a coordinating authority "to tie the loose ends, to resolve exceptional difficulties and to settle differences of opinions" in the course of day-to-day administration, but the problem lies in determining the authority in internal management whether it be a single person or a body of persons. The Report of the Broadcasting Committee, 1949, in Britain held the opinion that "a Board of management was to be preferred to the concentration of powers in a Director-General".<sup>2</sup> The practice in major countries of the world unmistakably indicates that there is little scope for one or two men control of management, and in practice the management of all large scale organisations is now vested in a Committee of Management composed of specialists and experts. A conspicuous difference is, however, perceptible in the Soviet economic system in which there is "the system of one-man authority-and-responsibility",<sup>3</sup> and "the pattern of one-man-authority-and-responsibility applies not only to the firm, but also to all industrial bodies above the firm and to departments and shops within it".<sup>4</sup> The condition in the U.S.S.R. are distinctly different from those prevailing in the other countries of the world and here political reliability is stressed as an even more important qualification than expert knowledge. One-man control has, however, been discarded in all developed countries and instead a "line and staff" method that originated in Germany was progressively introduced in other countries, and is now considered as belonging to the "traditional" conception of internal management system. With the growth of large-scale enterprise requiring expert co-ordination of functions of ramified wings, the concept on "new management" has evolved in which, according to Mary Parker Follet, the management of enterprise is an understanding of problems and decisions made by the informed minds coming together, and the management of an enterprise is but a "co-operative venture". An under-developed country

<sup>1</sup> From Speech of Mr. Lynex, Secretary of I. C. I., as quoted by Baker in *Large-scale Organisation* Ed. Milward pp. 163-64.

<sup>2</sup> Action Society Trust : *Nationalised Industry Series—“Pattern of Organisation”*, p. 20.

<sup>3</sup> David Granick : *Management of the Industrial Firm in the USSR* p. 27.

<sup>4</sup> David Granick : *Ibid.* p. 28.

guided by the methods applied so far in the developed regions of the world should identify the steps towards the achievement of its purpose and this it should do very judiciously and cautiously keeping its peculiar conditions in view so that the cost of experiment may not eat up the enterprise itself.

A national Board concentrating on the policy matters cannot act at the same time as the channel of command down to the "men on the spot" but must find some medium through which to transmit its policy and this clearly indicates a managerial organisation distinctive from the policy-making body. In India the channel has been introduced in the form of executive body which is called differently in different enterprises. For example, in the L.I.C., it is the Executive Committee,<sup>1</sup> which has the "general superintendence and direction of its affairs" and its powers and functions have been laid down in Regulations 17 and 18 of the L.I.C. Regulations 1959 ; in I.F.C., it is the Central Committee<sup>2</sup> which shall, subject to such and special directions of the Board, be competent "to deal with any matter within the competence of the Board".<sup>3</sup> The Central Board of the State Bank of India has set up an Executive Committee in pursuance of the provisions of Section 30 of the State Bank of India Act, to exercise its delegated functions but this feature is a bit different in character from the other executive committees in the sense that "the general superintendence and direction of the affairs of the State Bank" has been entrusted to the Central Board, and the Executive Committee has been created as a matter of convenience in the hierarchy of management. In the D.V.C., the General Manager & Secretary is the Chief Executive Officer of the Corporation<sup>4</sup>, while each of the Air Corporations has a General Manager for "efficiently to discharge its functions", and this feature in the D.V.C. and Air Corporations, may bring home the idea of the one-man centralised management. But the conception of the centralised management does not go only with one-man in the top and it is something different.

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<sup>1</sup> Sec. 19 of the L. I. C. Act.

<sup>2</sup> Sec. 14 of I. F. C. Act—the word "Central" has been substituted for the word "Executive" by Act XXVIII of 1955.

<sup>3</sup> Sec. 14 (4) of I. F. C. Act.

<sup>4</sup> Sec. 6 (2) of the D. V. C. Act.



## Centralisation of Administration

Centralisation connotes concentration of power in one hand or in a body. The centralisation of management can be favourably supported from various angles, viz. (a) responsibility without power is embarrassing and when the central authority is responsible for results, proper powers and rights can undoubtedly be claimed, (b) standardisation can only be made under the unified control and management, (c) the objectives of nationalised undertaking can be ensured by a positive planning and this calls for a central organisation with controlling authority for carrying out the plan programme, (d) flexibility of management and adaptability to the needs and circumstances need cohesion of performance under a unified control. But the glory of a central authority is already on the wane and the view is preponderantly in favour of decentralisation of management. Decentralisation is now claimed to be the epitome of modern management which encourages the lower tiers of organisation to function with responsibility, confidence and authority of an independent status of managerial functions, the effect of which is stimulating. The local Managers no longer feel themselves as cogs in a huge machine as they are extended recognition in contributing their share to the formula of management of the undertaking. Decentralisation is, in fact, implicit in a large-scale enterprise for its efficiency and success.

In Britain, sometimes an accusation is hurled that "everything is run from White Hall<sup>1</sup>," so in India, the management is accused for lock up to "mabaps in Delhi".<sup>2</sup> The National Coal Board was initially an extreme form of centralised management while the Gas industry is a gallant example of decentralised management in the U.K., and the Iron & Steel Corporation, since extinct, is an illustration of association of the undisturbed components with peculiar type of decentralised management<sup>3</sup>. The distinctive difference in the structures of the N. C. B. and

<sup>1</sup> Acton Society Trust—*The Extent of Centralisation Part I Based on Coal* 1951, p. 1.

<sup>2</sup> I. J. P. A. Seminar, op. cit. p, 39.

<sup>3</sup> Austen Albu—*The Organisation of Nationalised Industries and Services in Robson* ed. op. cit. pp 78-79.

the Gas Council is worth noting. In Gas, central Authority is largely a co-ordinating authority of the Area Boards, having powers over the matters affecting the industry as a whole, whereas the tiers of management created in Coal industry draw their powers from the Central Board, and the extent of delegation is a matter of controversy and criticism. It is criticised that the Board interfered too much in detail and sent out a "continual stream of instructions" down the several parallel lines of communications and called for a "continuous stream of reports" and the General Managers—"the Mining Experts", finding themselves deprived of the power to exercise initiative are tempted "to settle down as mere cogs in a huge machine".<sup>1</sup> The feature of enquiry has also been criticised as it is indistinguishable "where enquiry stops and supervision starts" and the lower management is left with "a certain sense of being harried, instead 'of being allowed to get on with the job'."<sup>2</sup> But this type of extreme 'span of control' has already gone out of general acceptance and now the policy and practice of the Board are to set the management "in a continuous state of evolution" and the scheme of delegation is well demonstrated in the lower tiers of managers upto the pit level. Nevertheless, one feature is evident in all nationalised undertakings that the matters affecting the enterprise as a whole as well as reaching a large area of operation and touching larger extent of workmen and consumers are controlled by the Centre. The centralisation of marketing has been sounded as dangerous due to the distant or haphazard location of pits and the N. C. B. has followed the recommendation of the Burrows Committee on Organisation to maintain marketing organisation at divisional level.<sup>3</sup> But the process of "hiving off" as practised in the I. C. I. is advocated to narrow the difficulty and anomaly,<sup>4</sup> but this has its drawbacks, which are discussed in a later Chapter.<sup>5</sup> Be that as it may, it is admitted on all hands that decentralisation is the aim of nationalised industry in the developed countries.

<sup>1</sup> Duncan Burn—*The National Coal Board in Public Administration* 1951, p. 40.

<sup>2</sup> Action Society Trust—Ibid. Part II 1951, pp. 2-3.

<sup>3</sup> Austen Albu—Loc. cit. p. 82.

<sup>4</sup> Action Society Trust—*Patterns of Organisation* 1951 p. 17.

<sup>5</sup> Chapter X.

Centralisation suggests one authority at the centre which has a pivotal control of administration while decentralisation connotes one authority at the centre and an array of regional bodies. In Great Britain, in all nationalised industries except the BBC, "there is a very considerable degree of regional decentralisation of authority". In the Electricity industry, for example, the central authority retains the power "to develop and maintain an efficient co-ordinated economical system of electricity supply", while the main function of the Area Boards "is to acquire from the central authority bulk supplies of electricity and to plan and carry out an efficient and economical distribution of those supplies to persons in their Areas who require them".<sup>1</sup> But "subject to the Authority's general control of policy and other powers, the Area Boards are autonomous in management and operation".<sup>2</sup> This feature suggests overall controlling and supervisory powers and co-ordinating functions vested in the central authority. Decentralisation does not certainly, mean abnegation of the powers of the central authority<sup>3</sup> but progressive delegation of powers to the lower tier of management so that the "men on the spit" may be left free to function and deal with the local problems with unfettered freedom. But the conception of decentralisation should not be driven too far as to degenerate the central body to a feckless show. "In order to bridle the unrestricted exercise of delegated powers", observes Mr. H. J. Kruisinga, "and to hold the activities of all executives and departments co-ordinated and unified in action this process of decentralisation requires at the same time centralisation of control in the hands of top management".<sup>4</sup> And complete centralisation can, indeed, be rejected as inappropriate and unwholesome.<sup>5</sup> A balance needs, therefore, be struck between the extent of centralisation and decentralisation, and the top management in order to "counterbalance" the decentralisation

<sup>1</sup> Herbert Committee Report op. cit. paras 41 and 42.

<sup>2</sup> Ibid. para 80.

<sup>3</sup> Paul H. Appleby—*Re-examination of India's Administrative System etc.* op. cit. 1956 p. 16.

<sup>4</sup> *The Balance between Centralisation and Decentralisation* 1954 n. 4.

<sup>5</sup> The Gas Industry—*Report of the Committee of Enquiry* (Heyworth Com. Report) Dec. 1945 Cmd. 6699 para 242.

should retain the matters of general interest within its powers "to balance and reconcile individual interests and viewpoints", and in practice, this has been followed in the nationalised industry.<sup>1</sup> In the case of the T. V. A. in the U. S. A., the policy is to have a progressive decentralisation of management,<sup>2</sup> and Mr. David Lilienthal during his Chairmanship was a vigorous upholder of the decentralisation scheme, and in all his addresses and speeches his views about it were manifest, as he said, "that power to decide in the field is, I believe, the heart of any decentralised programme, the quality without which there can never be an administration at the 'grass roots'."<sup>3</sup> The conception of decentralisation should not, however, be confused with the multiplication of lower tiers of management. Truly, decentralisation does not lie in hierarchy of management where in the officers on the spot prove to be merely "errand boys", but it rests on the extent of delegation of authority, as "an emigration of talent to the gross root".<sup>4</sup>

"All power corrupts and absolute power corrupts absolutely"—the famous saying of Lord Acton is applicable to the system of centralisation in its literal sense where the pivotal control rests in one hand. To have the administration effective, a modicum of wisdom is necessary to plan an integrated system of management where decentralisation should exist in the real form because it is "better not to decentralise at all than to accompany decentralisation with such rigid and tight control that it becomes completely ineffective".<sup>5</sup> An under-developed country is confronted with acute problems in the "scheme of delegation" mostly due to dearth of proper personnel in whom confidence can be reposed for effective dealing with matters in the "grass-roots" administration. In India, delegation of authority is cautious, sparing and limited, and the organisational structure in some of the public corporations lends more to the facade of centralised control, where the channel of command

<sup>1</sup> Austen Albu—Loc. cit. p. 79.

<sup>2</sup> Pritchett—Op. cit. p. 167.

<sup>3</sup> See Herman Finer *ibid.* pp. 116-17.

<sup>4</sup> Lilienthal D. F.—*T. V. A.—Democracy on the March* 1953 p. 146.

<sup>5</sup> Simpson J. B.—*Centralisation vs. Decentralisation* in H. J. Kruisinga, op. cit. 1954 p. 72.

runs from the Board to the top officials, without any channel from the top to the "men on the spot", than suggesting a decentralised management.

It would be worthwhile to make a comparative study of organisation of nationalised industry of Britain and that of Indian public corporations :

<i>Industry</i>	National Level	Regional Level	Sub-Regional Level	Operational Unit
(a) Coal	National Coal Board	Divisional Board	1. Area General Manager 2. Sub-Area Manager and /or Agent	Colliery Manager
(b) Electricity				
(i) Generation	British Electricity Authority	Divisional Controller	Group Engineer	Power Station Superintendent
(ii) Distribution	—do.—	Area Electricity Board	Sub-Area Manager	District Manager
(c) Gas	Gas Council	Area Gas Board	1. Divisional or Group Manager 2. Sub-divisional Manager	District Manager, or Station Engineer

The above structural organisation suggests that there are four tiers of management and in each tier the responsibility is divided, but in the hierarchy there are specified powers of the Divisional Boards and the Area General Managers. The Area General Manager in the N. C. B. enjoys more or less wide-

<sup>1</sup> Acton Society Trust—*Patterns of Organisation* 1951  
Appendix A p. 27.

powers relating to the local matters, and his authority in regard to wages, stores, repairs and replacements is subject to approval of the Divisional Boards. The AGM submits his accounts to the "Hobart House" within a fixed time limit so that the N. C.B. can comply with the statutory provisions to submit the accounts to the Minister. The AGM is empowered to make appointments upto the grade of Under-Manager. But the Area Manager receives instructions through two vertical pipes flowing from the N. C. B. and the Divisional Board which at times are at variance and this tends to complicate the situation.

This hierarchy of management is looked upon with a mixed feeling. The AGM feels that too much detailed control is imposed from the top and "the dead hands of departmentalism", he accuses, "can only have a bad effect on morale".<sup>1</sup> Sir Charles Reid criticised the Coal industry organisation as a "tendency to destroy the sense of individual responsibility" as in it the "General Managers, who are the mining experts there (units), find themselves deprived of the power to exercise initiative and are often frustrated by the decisions of the Divisional Boards in which they have no real confidence. The Divisional Boards themselves are in the same position in relation to N. C. B. in London. They, in their turn, are unable to make decisions with real authority for they can never tell when these will be turned down in London for the sake of appeasement".<sup>2</sup> This has a stifling effect on individual functions, and initiative dies down. and aptly it is said about this type of hierarchy of management that "for those who are keen it means frustration, and for those who are not so keen it is a golden opportunity to avoid taking any responsibility at all".<sup>2</sup> The idea develops that "few people will be discharged for inefficiency while individuality and enterprise, so much valued in former days, are no longer appreciated".<sup>4</sup> With regard to the Electricity industry in the U. K., the effect of nationalisation has made the position of the

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<sup>1</sup> Acton Society Trust—*Management under Nationalisation* 1953 p. 23.

<sup>2</sup> The problems of Coal II—*An Analysis of the Present Organisation* in *The Times*, London, dated 23. 11. 48 p. 5.

<sup>3</sup> Acton Society Trust—Ibid. p. 23.

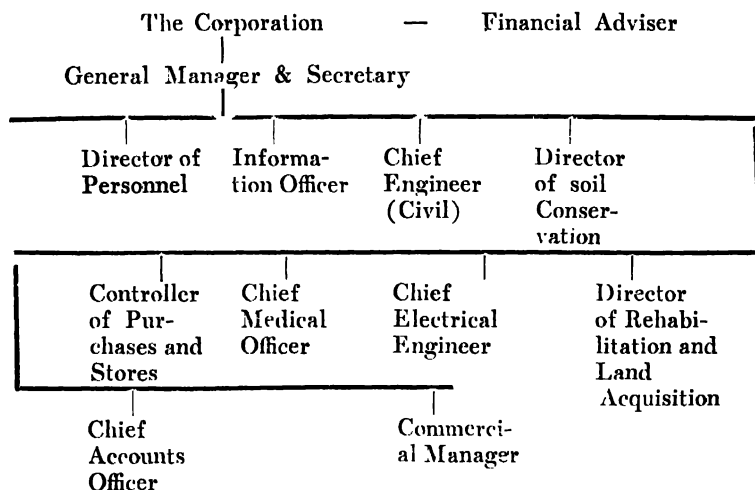
<sup>4</sup> Sir Charles Reid—Ibid. p. 5.

Power Station Superintendent "more distant from the ultimate authority", who has "above him an elaborate specialist organisation, advising and instructing him on a whole host of matters".<sup>1</sup>

### Authority of Area Managers

But nevertheless, complete authority, cannot be given to the Area Manager for obvious reasons; but caution should there be so that too much instructions from the top do not fetter the freedom of action at the area level as clearly "if too many decisions are taken at the top, the organisation will tend to become inflexible and the initiative and enthusiasm of subordinate will be damped, and frustration will creep in".<sup>2</sup>

The organisational structure of the D. V. C. is given below :



The organisation indicates that the Board transmits its policy to the Secretary who is the Chief Executive Officer and

<sup>1</sup> Acton Society Trust—*Management Under Nationalisation* 1953 p. 27.

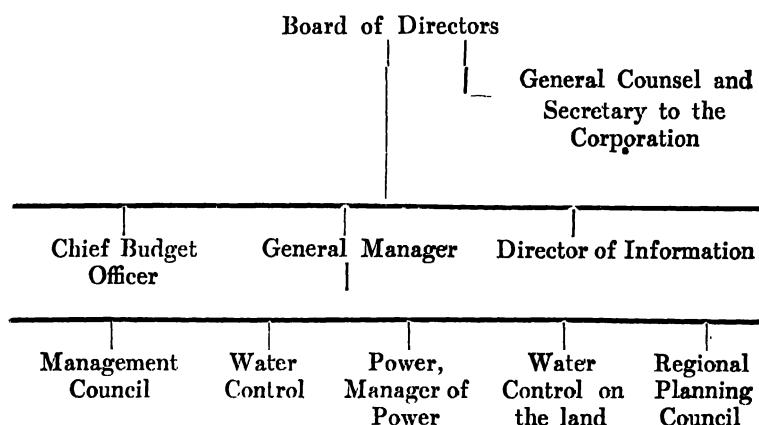
<sup>2</sup> Lord Citrine—*Problems of Nationalised Industries in Public Administration* 1951 p. 323.

the Secretary passes it in turn to the departmental heads who are responsible to the Secretary. The line of command is here clear and the authority is centralised. Of course, there is delegation of power to the Area Chief but of a limited extent. The work of the construction of the Thermal Power Stations and their day-to-day administration are under the control of an Additional Chief Electrical Engineer. On the Civil Engineering side, the Valley has been divided into two areas, the upper valley and the lower valley, and each area has been placed under a Deputy Chief Engineer. The Dy. Chief Engineers are responsible to the Chief Engineer, Civil or Electrical, as the case may be, but overall power is focussed from the Secretary in the chain of command. The Area management has a very limited power. In case of the D.V.C., it is, therefore, amply demonstrated that the management is centralised and the Area authorities have restricted powers. The Area authorities have no power of appointment except the work-charged men drawing less than Rs. 200/- p.m. With regard to stores purchasing power, the Chief Engineer enjoys power of buying stores upto the value of Rs. 5000/- and the Assistant Engineer to the value of Rs. 25/-.

The T.V.A. which provided the model of the D.V.C. had no smooth sailing over the issue of organisational matters. A controversy arose over the administrative machinery and there were "moments of confusion, dissension, strain and loss of time", and the question arose whether the Board could not be replaced by a single Administrator. While the Minority Report of the



Joint Congressional Investigation Committee held that a full-time General Manager with part-time Directors would be better, the Majority Report considered that "concentration of responsibility in a single administrator would be inefficient" because the T.V.A. was moving along novel and untried paths which are too large for a single person to operate effectively<sup>1</sup>. The organisation of the T.V.A. is shown below :



The above chart indicates the line of command from the Board of Directors to the General Manager and from the General Manager to different departmental heads. But in the T. V. A., the delegation of authority is of greater extent than that in the DVC and here there is constant endeavour to ramify the authority into an organisation of specialists in the scheme of diversified functionalism with wide authority within a unity of management.<sup>2</sup> In fact, the organisation is that of centralisation of policy and decentralisation of management, and the effective combination of

<sup>1</sup> Herman Finer—Op. cit. p. 130.

<sup>2</sup> Roscoe C. Martin Ed. : *TVA—The First Twenty Years*, 1956, p. 18.

the "advantages of the decentralised administration of a centralised authority"<sup>1</sup> is writ on the achievement of the project.

In the nationalised internal Air transport services in India, in April, 1954, besides a Headquarters organisation consisting of a number of departmental heads, the entire territory was divided into three administrative-cum-operational-traffic zones for convenience of physical management and "not as self-contained units of business". Each of these Areas was placed under the overall administrative control of an Area Manager, responsible functionally to the departmental heads at the Headquarters and collectively to the Chairman<sup>2</sup>. The organisational layout of the Indian Airlines Corporation is shown below<sup>3</sup> :

In February, 1955, the Area Managers were invested with additional powers to ensure unity of administration within their charge, and in September, 1955 "it was found necessary to relieve them of much administrative routine so as to enable them to devote greater attention to more pressing problems of co-ordination",<sup>4</sup> and the Deputy Area Managers with "sufficient administrative experience" were appointed. But in the scheme of progressive delegation of authority the Areas were "crystallized fully during the year 1956-57 with the result that the Areas began to function more or less as semi-autonomous units making as few references to Headquarters as possible".<sup>5</sup> The I.A.C. has no doubt followed a policy of larger delegation of authority but nevertheless in matters of purchase of stores, finance, appointments, and accounting of fuel, oil and booking agency commission, there is centralised control which is said to have been introduced "in order to effect economies and achieve greater control over expenditure"<sup>6</sup>.

<sup>1</sup> David Lilienthal—*TVA : Democracy on the March*, 1953, p. 141.

<sup>2</sup> I. A. C.—*2nd Annual Report*, 1954-55, pp. 3-4.

<sup>3</sup> Shanker Prasad : *Indian Airlines Corporation in Indian Journal of Public Administration* Vol. II No. 1 Jan.-Mar. 1956 p. 41.

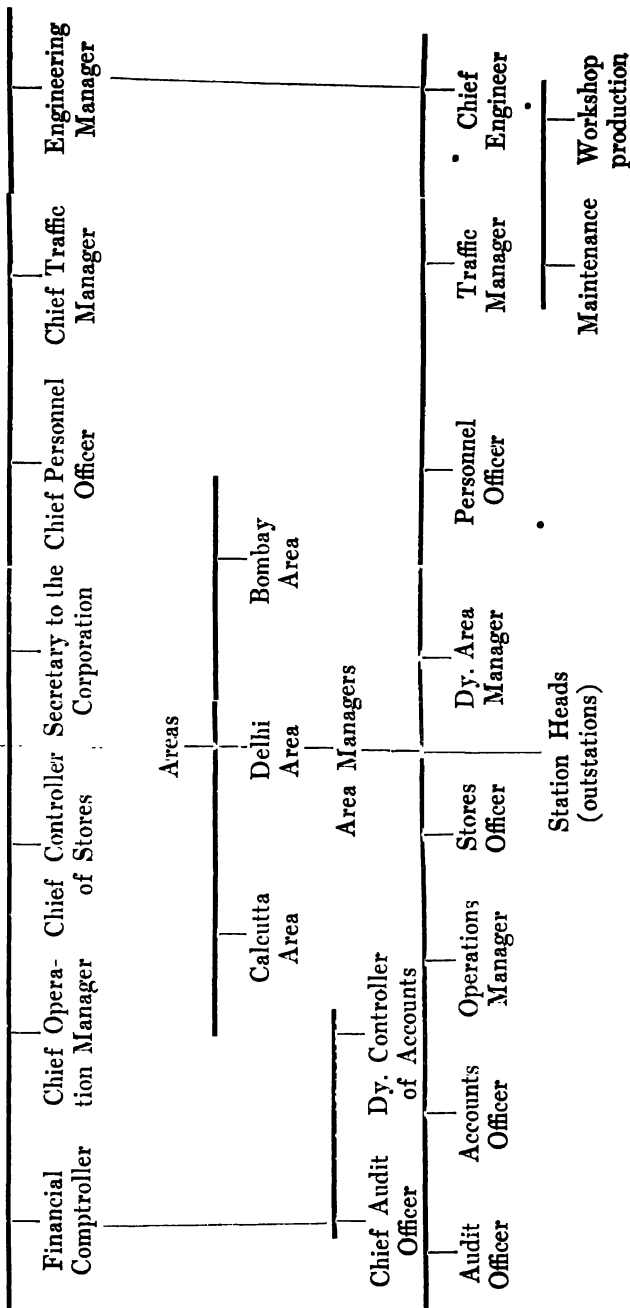
<sup>4</sup> I. A. C. 3rd Annual Report 1955-56 p. 1.

<sup>5</sup> I. A. C. 4th Annual Report p. 4.

<sup>6</sup> I. A. C. 3rd Annual Report 1955-56 p. 2.

# Chairman

## Headquarters



Besides, in the Indian Airlines Corporations in the initial stages some interim arrangements were felt necessary and a regional type of administration was introduced "to achieve uniformity in the working of at least those units which were located at the same bases, if not all over the I.A.C." The "line system of administration" worked through seven Resident and two Regional Representatives which came into existence, and the Regional Representatives worked under the direct control of the Chairman, and "this laid the foundation for centralised control, though the constituent units still continued to work very much as before according to their individual system of administration<sup>1</sup>". The present set-up has divided the operations into three Areas—Calcutta, Delhi and Bombay, and the Area Manager has enormous responsibilities and enjoys considerable power in relation to area operations, and he is directly responsible to the Board. The L.I.C. has also centralised control and the hierarchy of organisation has not been found suitable by the Estimates Committee<sup>2</sup>. In the L.I.C., the area of operations has been divided into five zones, having Zonal offices in Bombay, Calcutta, Delhi, Kanpur and Madras. Each zone has an Advisory Board. The Zonal system has been praised to have been working efficiently. These divisions are created for administrative convenience in conformity with the principle of decentralisation. But in the L.I.C., the management is virtually centralised ; for example, the sanction of the recently introduced House Loans against policies or Loans against property has been centralised in a body at Bombay and the local divisions are but to act as post offices to function in between. This is certainly opposed to the decentralisation policy. The efficiency of an organisation lies in prompt discharge of its functions, and zonal and divisional organisations should be extended a certain amount of freedom of action in important matters upto a certain reasonable limit.

Besides the statutory Advisory Committees, there are also a number of other ad hoc or permanent Committees in some corporations according to particular circumstances. In the D.V.C., the Advisory Committee that sat last in December, 1950

<sup>1</sup> I. A. C.—*1st Annual Report* para 4.

<sup>2</sup> The Estimates Committee—13th Report (1960-61) Second Lok Sabha para 26. Appendix V.

was abolished in 1953, the Board of Consultants had been continuing to function but due to the completion of major constructions the Board of Consultants (Civil) was abolished and at present the Board of Consultants (Power) has been functioning. The Board of Consultants have always made valuable contributions to the efficient operation of the project. The conferences of the participating Governments have been very important to work out changes and innovation in the working of the corporations<sup>1</sup>. Many Ad Hoc Committees have been set up in the public corporations, such as, the Cost-structure Committee in I.A.C., Advisory Committee for purposes of allocation of cost, the Textile Advisory Committee and the Sugar Ad Hoc Committee, and other Ad Hoc Committees for dealing with applications in the Industrial Finance Corporation. The I.F.C. has in fact, five Advisory Committees, one each for the Textile, Sugar, Engineering and Chemical industries and one for the rest, labelled "Miscellaneous industries"<sup>2</sup>. The Air Transport Council and Labour Relation Committee are statutory Committees of the Air Corporations created in pursuance of the provisions of the Act. In the midst of various committees prevailing in a public corporation, there is a uniformity of approach in their dealing with the affairs of the corporation. The essence of decentralisation lies in the cohesion of ideas and co-ordination of functions of different organs in a project, and the modern economy conceives a sound principle of management as a decentralised administration in a centralised authority. The supreme need in the case of public corporations in India is larger delegation of authorities and a powerful co-ordinator of functions. Indian public corporation should progressively follow the policy of decentralisation as it is "one form of anti-dote that is effective the world over, for it rests upon human impulses that are universal"<sup>3</sup>.

### Decentralisation

It is, however, necessary to decide how far decentralisation of management can be extended without jeopardy in an under-

<sup>1</sup> For example, See D. V. C. Annual Report 1954-55, p. 3, 1956-57 p. 2.

<sup>2</sup> See I. F. C. Annual Report, 30th June 1958, p. 2.

<sup>3</sup> Lilienthal D. E. : Op. cit. pp. 161-62.

developed country. An under-developed country not only suffers from dearth of personnel but of capable men who can stand and hold their position above any outside influence, political or otherwise. Matters of appointments, promotion, contracts, concession and other independent functions, either at the national level or area level, are liable to be prejudiced by interference of outside agencies if the persons in authority are weaklings and are unable to overcome the influence in a tactful manner. The delegation of authority in such circumstances is bound to be restricted to maintain in effective check from the top but the extent of check should be judiciously exercised so as not to lend to the belief that the Area Managers, Experts and Specialists are undermined at the top and their powers are unduly circumscribed by intervention, because this idea would tend to create not only resentment but an atmosphere of frustration and despair at the local level. This gloom would undoubtedly touch the top through the vertical line of organisation. The basic thing is, therefore, to improve the quality of personnel through educative process, training and experiment and to keep watch on how the delegated authority is exercised at the local level for considering whether further delegation would be worthwhile. In the initial stages restricted delegation is desirable with progressive scheme of delegation in future by which time the expected quality in the personnel would develop to shoulder the burden of delegated authority.

A distinctive difference is experienced in the matter of organisation between a nationalised undertaking hitherto in private hands and a new public undertaking. The diverse units of private industry since nationalised have to be brought under a unified management control and scheme of organisation. Private units run under different managements have no particular plan and there is no uniformity in the matter of organisational frame, appointment, dismissal or delegation of functions. A number of personnel who were virtually "all in all" in an undertaking on themselves overnight reduced to a subordinate position and put under the imposition from the top. Both the L.I.C. and Air Corporations had to face initial difficulties of organisation of different units, some of them belonging to warring groups, to be brought under a unified managerial control. In the L.I.C., the task of integrating the controlled business of

243 different units into one unified organisation was not certainly very easy, and in determining the organisational set-up, utmost care had to be taken to avoid dislocation of any large extent during the period of change-over and "for this reason the machinery provided by the former head office and branch office units of insurers was left largely undisturbed".<sup>1</sup> But serious problems arose in matters of selection of officers and determination of the pay-scales for different categories of employees. Widespread discontent was apparent on this matter including the determination of claims of officers as to the seniority and gradation and this ultimately led the Government to set up a Committee under the Chairmanship of Shri S. Lall, I.C.S. (Ret.) for determining the principle of seniority. The most serious obstacles were experienced to integrate the services of supervisory, clerical and other subordinate staff under unified scales of pay and, as the matter would have it, standardisation of scales of pay was not considered acceptable by all and there was agitation by a section of employees which culminated in "one-day token strike" by them. But seriously enough, the disputes over the change of existing conditions of employment brought about by method of standardisation of terms and emoluments was taken to the High Court by the Employees' Union and in deciding the case against the L.I.C., the Bombay High Court held that the Act did not confer the power either on the Central Government or on the Corporation to standardise the terms and conditions of service of the employees. As a result of the decision of the Bombay High Court, the Act had to be amended by the Life Insurance Corporation (Amendment) Act (Act XVII), 1957, to empower the Corporation to secure uniformity in the scales of remuneration and the other terms and conditions of the employees and it has also been provided that "if the alteration is not acceptable to any employee, the Corporation may terminate his employment by giving him compensation equivalent to three months' remuneration, etc."<sup>2</sup> Ultimately, final conclusions regarding pay-scales and fitting-in were reached between the Central Government and the representative of employees and

<sup>1</sup> Life Insurance Corporation of India—*Interim Report on Activities of L. I. C.* 1957 p. 3.

<sup>2</sup> Sec. II (2) of the Act.

these conclusions were incorporated in an Order of the Central Government dated 1st June, 1957, called "the Life Insurance Corporation (Alteration of Remuneration and other Terms and Conditions of Service of Employees) Order, 1957"<sup>1</sup>. As a sequel to this amendment of the Act, the L.I.C. had to terminate the services of some persons of the former Insurance for over-age or "drawing excessive salaries or holding sinecure posts by virtue of their influence with the management of the Companies", as majority of them did not accept the rationalised and standardised scales of pay and conditions of employment.<sup>2</sup>

### Status of Employees and Standardisation of Conditions

The matter of standardisation of employment conditions was not, however, confined to the L.I.C. as the Air Corporations had also to face initial difficulty in the matter but they could introduce the new scheme with less difficulty than the L.I.C. In Air Corporations, a "Services Committee" consisting of Shri Justice Puranik and Shri S.B. Bapat, I.C.S. was formed "to make recommendations on the rationalisation of pay scales for the different categories of personnel and the formulation of a suitable wage structure and common service conditions"<sup>3</sup>.

Admittedly, one of the leading principles of public corporations is to keep its employees outside the category of Civil Service. The employees belong to the respective corporations, and "the significance of this is that there is no Treasury control over remuneration, conditions of service and establishment questions generally"<sup>4</sup>. It is interesting to note, however, that in practice this fundamental principle of public corporation has been honoured more in the breach rather than in observance. For example, in the U.S.A. by an Executive order No. 7916, the President brought all Government positions within the orbit of the competitive Civil Service. "including positions in Corporations wholly-owned and controlled by the United States", and later by the terms of the Ramspeck Act of 1940, the Congress

<sup>1</sup> L.I.C. *Interim Report* Ibid. p. 7.

<sup>2</sup> Mr. B. R. Bhagat's reply in *Lok Sabha Debate* dated 25. 5. 57 col. 2-3.

<sup>3</sup> Shankar Prasad : *Indian Airlines Corporations in the Indian Journal of Public Administration*. Jan.-Mar., 1956 p. 38.

<sup>4</sup> Robson W. A. : *Op. cit.* p. 31.



authorised the President to bring all employees within the Civil Service regulations with the single exception of the Tennessee Valley Authority. The T.V.A. is a public corporation *par excellence* and its corporate freedom has been scrupulously maintained in the selection of its personnel. In some smaller countries although the personnel of a public corporation are not expressly brought under the Civil Service rules, the influence of Civil Service rules is as great as their direct governance over the system. For example, in the Philippines all officers are governed by the Civil Service law, rules and regulations, except some positions of confidential nature<sup>1</sup>; in Indonesia, most of the State enterprises established under the "Indische Bedrijven Wet 1927 (Indies Law on State Enterprise) are tied to the Government personnel regulations, and in these enterprises employments, promotions, retirements and discharges are regulated by, or require the approval of the Bureau of Personnel Affairs, a Central Governmental agency"<sup>2</sup>. In Ceylon, there has been much less independence from the Civil Service although the country has realised "the necessity to reduce this dependence". Determining its own pay scales and service condition is, of course, not absent in a public undertaking in smaller countries. In Yugoslavia, for example, the pay scales are set according to the nature of the jobs and remuneration is offered on the basis of performance, and "the pay methods depend upon an enterprise itself" although the area is not without social influence as demonstrated by the pay scale agreement issued by the Central Trade bodies "in accord with the central industrial trade associations for individual economic branches"<sup>3</sup>. In Britain, it has been held beyond doubt, of course, as a matter of unwritten law, that the personnel of the public corporations are not Civil Servants and the shred of doubt maintained in some quarters has been set at rest by a judgment of the Court of Appeal in *Tamlin V. Hannaford* in respect of the legal status of the British Transport Commission, as it was held that "in the eye of law the corporation is, a public authority, and its purposes, no doubt,

<sup>1</sup> Section 14 of Executive Order No. 399 promulgated under the Reorganisation Act of 1950.

<sup>2</sup> U. N. Seminar New Delhi, op. cit. Paper No. 25 p. 17:

<sup>3</sup> Delhi Seminar Paper No. 63 p. 18.

are public purposes. But it is not a Government department nor do its powers fall within the province of Government<sup>1</sup>".

The serious limitations of formulating its own pay scales and employment terms and conditions by a public corporation seem to be due to the existence of the time-honoured Civil Service pay scales, rules and regulations of the country as no larger departure from them is possible in practice without causing obvious resentment in one or other quarters which, if fomented, will inevitably lead to an economic and administrative deadlock. This factor of limitation has been brought out in a Paper on the Burmese public enterprises at the U.N. Seminar, New Delhi, where it bemoans that "the Burmese, who had been working in privately owned industries are not willing to work in the State owned industries as the terms of employment in the State industrial enterprises are far less attractive than the terms offered by private large industrial concerns. The pay scales of executive working in the public industrial enterprises are kept in line with Government Civil Service pay scales, the highest of which do not rise more than K 1600 per month. Whereas, in the case of private large industrial concerns, the second line top executives may draw a salary somewhere between K. 2000 to K. 3000 per month<sup>2</sup>".

In India, the employees of the public corporations as in Britain are not Civil Servants but they are on the pay-roll of the respective corporations. There is uniformity in the provisions<sup>3</sup> that "the corporation may employ such number of persons as it thinks fit" for the efficient performance of its functions under the Act. But a glaring peculiarity is noticeable in the D.V.C., where the Act provides that "all members, officers and servants of the corporation, whether appointed by the Central Government or the Corporation, shall be deemed, when acting or purporting to act in pursuance of any of the provisions of this Act, to be public servants within the meaning of Section 21 of Indian Penal Code (XLV of 1860"<sup>4</sup>. This provision clothes the Corporation employees with powers and responsibilities of a public

<sup>1</sup> (1950) I. K. B. 24 See Robson W. A. *op. cit.* p. 41.

<sup>2</sup> Seminar Paper No. 22 p. 8.

<sup>3</sup> For example, Sec. 16 of I. F. C. Act, Sec. 8 of Air Corporations Act, Sec. 23 of L. I. C. Act, Sec. 6(3) of D. V. C. Act.

<sup>4</sup> Sec. 56 of D. V. C. Act.

servant. Nevertheless, it is true that the corporation employees are not governed by Civil Service rules though their conditions of employment follow them closely. A statutory corporation is run on a combination of business principles and the public interest, and so its service rules cannot be strictly the same as those of the Government servants. It is, of course, true that the Government cannot shut its eyes to this matter altogether as it is primarily the duty of the Government to see that no serious bottleneck causes over the employment conditions of the employees of the public corporation as well as to see that unworthy persons do not thrive at the cost of public money. In this respect the initial phases of the L.I.C. are glaringly illustrative of the fact that unfettered freedom of a public undertaking in a young democracy can do more harm than good. In Lok Sabha, while the defects in categorisation of officers were pointed out, some specific allegations were made that a few officers "are now drawing a higher salary, double or so, than they were drawing in pre-nationalisation period<sup>1</sup>", to which the Finance Minister told the House that LIC was already asked to examine these cases and "to bring their salaries in relation to what they were receiving and in relation to what others received, so that there may not be any injustice done either to them or to the others<sup>2</sup>". But the Minister expressed cautiousness about the autonomous status of the corporation, and said, "but I do not propose to interfere more than that in this matter because that would not be right". To what extent the Government can interfere with actions of the public corporation in this particular sphere is a matter reserved for detailed discussion in the next Chapter. But it may be stated that no unrestricted powers can be extended to a public undertaking in this matter and it is in the fitness of things that the Government has already restricted some categories of employment and set a limitation upto which pay-scale the corporation can employ<sup>3</sup>.

<sup>1</sup> *Lok Sabha Debates* dt. 6. 8. 59 cols. 1033-34.

<sup>2</sup> *Ibid.* col. 1062.

<sup>3</sup> Air India International is empowered *suo motu* to make appointments upto a post carrying salary of Rs. 500/- while the Oil and Natural Gas Commission is empowered to make appointments with salary upto Rs. 2,000/-, beyond which the approval of the Government is to be obtained—See the Estimates Committee 80th Report (2nd Lok Sabha) 1959-60, Appendix IV.

Security of service and opportunities of promotion are the two strong employment incentives. The departmental system often comes under acute criticism due to rigidity of rules of promotion which is based more upon seniority than efficiency and merits.<sup>1</sup> The young entrants in a public corporation should proceed with an ambitious hope and zeal which can only develop in them provided service conditions are laid down on fair and equitable basis. It will be a sad day for India if the impression now prevailing with the promising young men that "unless you have a brother or somebody or other in Delhi, you never go up", is not erased by the demonstrable action of the authorities in the opposite way. It is the totality of considerations that would attract talents in a public enterprise and not only emolument that matters. The real problem of the country lies not so much in choosing the men but providing them with the opportunity for development and accord them the recognition of their being important components of the enterprise, because "the best men in every profession including management are motivated by a sense of achievement rather than by money. The individual who places exclusive emphasis on his pay is at least partly disqualified for that reason. But the best men in the world can be defeated if he is not given the proper chance<sup>2</sup>". The authorities must be on the guard that no frustration sets in for lack of opportunities as it may destroy the whole of public economy.

The powers of appointment and dismissal of its employees are given by the Act to the Corporation itself. The Union Public Service Commission, which is the agency of important public appointments is already over worked and the additional burden of recruitment to the nationalised sector will be too much for it. Another employment agency for the public undertakings is the present need, which should be set up at the instance of the Government. In India, there has been envisaged a scheme for recruitment to top executive posts and an "Industrial Management Pool" has been created. The scheme envisages

<sup>1</sup> Saratya : *Administration of Nationalised undertakings in Indian Journal of public Administration*, Apr.-June 56 p. 118-9.

<sup>2</sup> Galbraith John Kenneth : *Industrial Organisation and Development* 1959 pp. 4-5.

choosing of high-calibred persons to hold the top-most executive posts of different ranges and categories having pay-scales from Rs. 2750/- down to Rs. 350/- per month, divided into seven grades. The selection was done by a Special Recruitment Board consisting of U. P. S. C. Members, Directors and Managers of different public undertakings and representative of the appropriate Ministries. In the scheme, the continuity of service as well as promotion to the next higher pay-grade would depend entirely on the recommendation of the Board of Directors of the enterprise, and here the danger lurks in. Unless the persons at the helm of affairs have the robustness of outlook personal predilection, favouritism or outside influence political or otherwise, may sometimes blur their judgment.

The scheme certainly puts a brake on the corporation's freedom "to hire and fire", and is somewhat opposed to the principle that "who plays the piper can certainly call the tune". But in an under-developed country the Government has greater responsibility to see that the public enterprises are equipped with proper executives to uphold national interest through the efficient conduct of the undertakings and this can only be discharged by insuring the enterprises against paucity of personnel by maintaining a reserve 'pool' of talented persons. While the Government cannot disown its responsibility, the public undertakings should at the same time endeavour to make best use of the pool and not to allow the inefficient to become parasites and "dig themselves in". But the treatment meted out to them must be fair, and mistakes committed in course of discharge of duties in good faith should never be a contributory factor in "purging out." In Soviet Russia, where the economic system is fundamentally different from a democratic set up, "an official's life is far from secure, a Director may rocket up to the post of Commissar or suddenly be demoted or dismissed" and here "political reliability is stressed as an even more important qualification than expert knowledge<sup>1</sup>". It is, however, an accepted doctrine in a socialist democracy that a member of Government service should have no political leanings and India has been steadfastly maintaining this principle, as here political

reliability is never a consideration for choice of personnel. In order to ensure efficient conduct of a public undertaking, as Mr. Hanson puts it, "there has to be some compromise, in fact between the ruthless 'get on or get out' attitude said to characterise dynamic private business and the more careful and responsible treatment of top-level personnel typical of a well organised Civil Service<sup>1</sup>".

Apprehending that the work of the D.V.C. would taper off in the near future, some of the trained staff started looking for employment under the State Governments and in other projects.<sup>2</sup> As a result of which, in September, 1954, the Government of India suggested to State Governments that suitable instructions should be issued to the Project authorities to the effect that no officer serving in one project should be considered for employment in another project "without the concurrence of the former". But these instruction had little effect and in February, 1955, the Government of India issued a communication requesting the State Governments and State sponsored projects "to refrain from offering appointments to the technical personnel who had resigned from the river valley projects without the permission of the project concerned". The Government of India also made it clear that "the intention of these arrangements was not merely to check the migration of technical personnel from one project to another, but also to regulate it in the wider interests of the country.<sup>3</sup>

There were also resignation of three Commanders and Pilots of the I. A. C. who joined foreign nationalised Airlines and this was a disturbing feature. The Estimates Committee observed on this matter that in pursuance of the aforesaid instructions of the Government, "the feasibility of issuing instructions to the effect that when an employee resigns from one State undertaking and seeks employment in another, the latter should obtain a recommendation from the former in regard to his fitness for the subsequent employment, should be

<sup>1</sup> Hanson A. H. : *Public Enterprises and Economic Development* p. 455.

<sup>2</sup> D. V. C. *Annual Report 1954-55* p. 1.

<sup>3</sup> D. V. C. *Ibid.* p. 2.

considered<sup>1</sup>". This observation not only tends to put shackles on the freedom of a person to seek any better employment,<sup>2</sup> but is unpractical, as the fault of the personnel may come to light much after he has left the organisation. For example, the Executive Engineer who supervised the construction of the D. V. C. quarters, which later on appeared to be a poor work, left the service long before the matter was detected, and the Public Accounts Committee now urges disciplinary action against him.<sup>3</sup> Certificate of fitness is, therefore, no solution, and the more practical way would be to obtain a certificate from the incumbent to hold himself liable for adverse results out of his ex-employment that can be directly attributed to him. And yet too much rigidity and stringent imposition on matter of resignation to join elsewhere may do more harm than good to the projects as a whole, as frustration would possibly creep in. The real anti-dote to frustration and resignation lies in the fair treatment to the personnel providing them with congenial conditions of employment and opportunities of development.

Transfer of personnel from one public enterprise to another is a matter worth considering. Public enterprises of similar nature can exchange technical staff and this may be profitably done. In the D. V. C., for example, the personnel have been trained in many ways and at different levels, both technical and non-technical. The project is nearing its end and there is bound to be surplus staff. River projects are in a developing condition in this country and a new project can intensively offer appointments to the trained surplus personnel of the D. V. C. This is, however, a scheme of absorption rather than "cross fertilisation". Transferability really connotes either sending personnel on deputation for a reasonable period of time or taking them away from one enterprise to another. The system of deputation cannot be viewed with pleasure as "such men, always ready to pack their bags for another move arising from an

<sup>1</sup> 41st Report 1953-54.

<sup>2</sup> The recent suicide of Dr. Joseph is an unhappy episode resulting from the Government's stringent conditions imposed on employment.

<sup>3</sup> P. A. C. 36th Report 2nd Lok Sabha, 1960-61 para 29-30:

administrative reshuffle,<sup>1</sup> can hardly identify themselves with the organisation. But the scheme of deputation can be of great benefit until there is proper inbreeding by training of the staff. The Government 'has already proposed to set up Training Institutes at Ahmedabad and Calcutta for administrative cadre.

The method of recruitment of the employees should be easy, short and prompt. No ambiguity should there be about the authority of appointment and it should be laid down by express provision of the statutes to avoid delay in appointment. In the T. V. A., in the scheme of decentralisation, the supervisor has the responsibility of making selections for appointment and "he cannot shift the blame if he does not get a competent appointee". In India, such single-man power of selection is not encouraged and in each public corporation there is a "Selection Committee", or a "Service Committee". In the L. I. C. selections to senior posts in the Corporation were made on the basis of the service records of the officers in the various Insurance Companies and after an interview by a Committee headed by Shri M. C. Shah, Minister for Revenue and Civil Expenditure. In the Air Corporations a "Services Committee" was appointed to make recommendations on "rationalisation of pay-scales for different categories of personnel and formulation of a suitable wage structure and common conditions of service"<sup>2</sup>. In the case of Air India International Corporation, it took over on 1st August, 1953 as a going concern, the assets and business of Air India International Ltd. Practically, all the personnel engaged in India in the work of A. I. I. were, on nationalisation, transferred to I. A. C., and on an agreed programme between IAC and AII for gradual transfer of staff, the process of transfer continued and completed by 31st December, 1954.<sup>3</sup> But the initial stages being over, later recruitments were handed to Selection Committee.

In the matter of recruitment to some posts there may be alternative methods, either by asking the Union Public Service Commission through the appropriate Ministry to hold examina-

<sup>1</sup> Hanson A. H. : Op. cit. p. 455.

<sup>2</sup> I. A. C. : 1st Annual Report para 4.

<sup>3</sup> A. I. I. : 1st Annual Report, Aug. 1913—Mar. 1954 paras 10 and 35.



tion, or to select temporary hands with the permission of the Ministry subject to final selection by the Service Commission. But the recruitment or regularising the process through the U. P. S. C. requires some procedure to follow which entails delay and this is exemplified by the appointment of Assistant Executive Engineers for Hirakud Dam Project, of which Prof. Hart states that "the experience of the three Assistant Executive Engineers is typical. One to four months after they began temporary appointments, a request for permanent selection was sent to Delhi. It then took another seven to thirteen months for the Union Public Service Commission to advertise the vacancies and a year after the advertisement, in the best instance, twenty-four and half months after the temporary appointment, no selection had yet been made. All the three Engineers remained uncertain as to their status and the project uncertain as to its officers<sup>1</sup>". The delay in appointment was also there in the D. V. C. as Mr. Gorwala complains, "For thirty months after beginning operations, a corporation charged with most immediate engineering and important works, was without a Chief Engineer<sup>2</sup>". A public corporation should function on business principles where flexibility and promptness are the keynote of success and this feature of inordinate delay in key appointments is certainly regrettable. But this deadlock can hardly be avoided in the absence of a defined authority of appointment as well as a free hand given to the corporation itself to fill up the posts outside the rigour of the Service Commission rules and procedure. There should, however, be a check on the Corporation's freedom in this aspect to ensure its judicious choice and this can be sufficiently exercised by a provision in the statutes for ratification of appointments or power reserved by the Government for appointments, to posts over a specified emolument.

Though outside the purview of Civil Service, the Estimates Committee held that it is not proper to follow methods of recruitments in a public sector "different from that adopted for recruitment to services directly under the Government"<sup>3</sup>. The reasons

<sup>1</sup> Op. cit. p. 144.

<sup>2</sup> Op. cit. p. 33.

<sup>3</sup> 68th Report para 75.

for such rigid observation are not, however, clear. Rules should be framed by each corporation according to the nature of appointments and peculiarity of circumstances and no rigidity should be attached to them. The regional authorities should enjoy larger freedom in filling up the subordinate posts at the local level by local men within some pay-limit fixed by the Board. The problem of a new enterprise is, however, far less than an existing enterprise brought under public ownership. But the switch-over of a departmental enterprise to a public corporation really poses a problem as the conditions of employment there geared to Civil Service can hardly be amended and there is cautious approach to the problem to evolve methods and principles 'not less favourable' than those hitherto. All in all, the principle should be as flexible as possible to suit the situation. There is a need of central appointing body for prompt and effective filling up of the vacancies in the different segments of the public sector. The matter of promotion should be in the hands of a Promotion Committee which will assess the qualities and merits of the personnel before recommending for promotion. If promotion is made on a correct assessment of individual merits, there will be no room for adverse criticisms. The promotions to the top-executive should, however, be subject to the approval of the Ministry. Promotion should aim at pulling up the talented to the top-most position in a public corporation, which will serve as an incentive to the talented young men to give best out of them. The junior executive must not feel like "forgotten men".

### **Search for Talents**

A Combination of indigenous talents and foreign technical know-how is far more necessary in an under-developed country. In India foreigners are engaged in various capacities in different public enterprises. The D. V. C. has the touch of foreigners from its very inception. An under-developed country needs foreigners not so much as to put down the principles but to translate them into action with ostensible results. Appointment of a foreigner is subject to the approval of the Government and it is highly necessary that the projects should have maximum benefit out of the appointment. The foreign hands in some industries have been criticised and serious criticism has been levelled against the French firm engaged in the Hindusthan Ship-

yard, and the Minister had to admit that the firm did not come of expected standard. Foreign participants have also been criticised for their half-hearted discharge of functions. In free India, the progressive Indianisation is the principle. The Indian Airlines Corporation states that in order to achieve progressive Indianisation of technical staff, Pilot training was intensified and "it was decided to spare no efforts to improve the technical knowledge and flying standard of our Pilots,"<sup>1</sup> and services of an experienced Flying Instruction from K. L. M. Royal Dutch Airlines were obtained. Pilots were also sent in batches to the U. K. for training. Much desired and much needed Central Training Establishment came into being in 1958 and "Pilots from all bases of the Corporation now proceed to Hyderabad for their Ground, Link and Flying Training"<sup>2</sup>. The Estimates Committee also recorded their satisfaction over "the policy of the Air India International to replace foreigners by Indians"<sup>3</sup>. In all nationalised undertakings in India the tendency to Indianisation of the staff is well-marked<sup>4</sup>. Nevertheless, for the sake of efficiency foreign skill and expert knowledge are always welcome. There should indeed be no objection about foreigners, but the aim should be to draw the maximum benefit out of such appointments. In fact, there is also stagnation of thoughts and ideas in an under-developed country and the expert finding of causes of drawbacks and remedial measures serve also as a wholesome stimulus. The task of foreigners should not only be to discharge their assigned functions but should also "include selling of the basic philosophy and techniques of scientific management to the greatest possible number of people within the organisation"<sup>5</sup>. The future possibilities of Indian personnel are enormous but there should be real attempt to train them in a proper way. The contribution of the foreign countries in the steel industry in India is an admirable example as to how an under-developed country can seek an active co-operation in the establishment of public

<sup>1</sup> I. A. C., 3rd Annual Report, 1955-56 p. 9.

<sup>2</sup> I. A. C. : *Annual Report* 1958-59 p. 9.

<sup>3</sup> 41st Report '1956-57' para 116.

<sup>4</sup> In the D. V. C. with the release of Mr. Komara. Chief Engineer, there is no foreign national in the service.

<sup>5</sup> Hanson A. H. *Op. cit.* p. 458.

undertakings and get facilities of training its own men under foreign experts in and outside the country for equipping themselves to shoulder the future burden of the enterprise.

The conception of internal organisation of Indian public corporations should, therefore, be towards a progressive decentralisation scheme, with autonomous regional bodies set up, where local problems are more acute and peculiar to influence the over-all policy and action of the undertakings. "Centralisation", observes Mr. Kruisinga, "in the strict sense of the reservation of management decision is a weakness. It hampers effective action, it breeds resentment, it wastes valuable time, it causes lost opportunities, perhaps equally serious, it restricts the use of the potential management skill available and stunts the growth of executive manpower<sup>1</sup>". Indeed, public corporations should never develop a spirit of centralised management and, on the contrary, a constant effort should there be for emigration of authority to the lower levels of management<sup>2</sup>. In order to equip the personnel with administrative and technical ability, a scheme of intensive training both internally and externally should be followed<sup>3</sup>, and foreign experts should be made to contribute to train up indigenous talents and offer techniques of scientific management. There should be a special service commission for the public sector of a permanent nature for recruitment purposes on the model of the Union Public Service Commission, as recruitment of suitable personnel is the pivot of success of a public undertaking. A complete co-ordination of functions, and understanding and co-operation between the personnel at different levels of organisation are the conditions of efficient conduct of an enterprise. It should, however, be borne in mind that in spite of all decent principles of management and theoretical postulations of internal structure, a public corporation can hardly function with confidence

<sup>1</sup> Op. cit. p. 17.

<sup>2</sup> Paul H. Appleby : Op. cit. p. 45.

<sup>3</sup> Besides A. I. I., I. A. C., D. V. C., training has also been emphasized in L. I. C. and to expedite the initial training of all categories of development personnel, the LIC has decided to organise seven temporary training units in addition to the five training centres. The temporary units will be located at important divisional headquarters (See The Statesman, dated 10. 2. 59).

unless its relationship with the Government and public accountability are maintained in a good fervour wherein the "areas of conflicts" would be as narrow as possible, and the autonomous behaviour of the corporate sector is respected and upheld.

## CHAPTER V

### *RELATIONSHIP WITH THE GOVERNMENT : POWERS OF THE MINISTER*

Apart from the economic policy of the Government that touches the enterprises both in the private sector and the public sector, the relationship of the Government with the public corporations is more closely established by the Nationalisation statutes wherein the powers and duties of the Government are expressly laid down. The principles of a public corporation envisage guarantee of autonomous behaviour of the corporation but the autonomy of a public corporation is never absolute and is circumscribed by its duties and obligations to the Government and accountability to the public through Parliament. Absolute freedom of action without any obligation of accountability is never the philosophy on which the institution rests. Autonomy should not, however be confused with licence, and there must be checks and balances. "In a democratic Government", writes Mr. Appleby, "Government can always and should always be able to intervene in any matter really important to the Government. Advocacy of autonomy simply highlights the need to educate responsible top organs of Government in the Ordinances of self-denial which would restrict their intervention to really important concerns"<sup>1</sup>. Admittedly, the public corporation being statutory institution has in the eye of law an autonomous status that implies the freedom and flexibility of management. But this freedom of action is always subject to the ministerial powers of directions provided in the Act. In this sense a public corporation has been called as "semi-autonomous"<sup>2</sup>. But the potential powers retained by the Government to curb action of

<sup>1</sup> Mr. Paul H. Appleby : Op. cit. pp. 4-5.

<sup>2</sup> Ashoke Mehta—*The Autonomy of Public Corporation in the Statesman*, February 26, 1958.

a public Corporation in the national interest, or its conventional accountability to Parliament should not be construed as encroachment on the domain of the autonomy of the Corporation nor should the occasional 'intervention' be interpreted as 'interference' with the Board's action. Nevertheless, it is admitted on all hands that the sphere of autonomy of the Corporation is hedged round by the ministerial powers provided in the Acts or exercised as a general convention. In many respects the Governing Board of the Corporation is bound to restrict its freedom of operation and look to the Minister for approval, directions etc. The real problem, therefore, lies to strike a balance between the autonomy of the Corporation and its accountability. The ministerial powers are the potent weapons against the Board in its actions which are incompatible with the national policy of the Government, or actions not in conformity with the express provisions of the statute and injurious to its intent and spirit, or actions offending against the public interest. In fact, there is need of a higher authority to have surveillance over the functioning of the Corporation, and the area of its autonomy can only be determined in relation to the practical operations rather than on any theoretical postulates.

A public Corporation has been evolved to do away with the worst of both worlds—the absence of public control in private enterprise, and public interference in the management under departmental system. But there is a number of considerations calling for checks and balances on the Corporation's activities. Firstly, a public enterprise dealing with national assets cannot be allowed to be wasted by reckless and imprudent management, and rationality in administration requires to be set up by the Government in the capacity of a stock-holder. Secondly, the whole of an industry being brought under a unified management, it is incumbent on the part of the Government to see that the enterprise is conducted with the expected efficiency and no uneconomic unit thrives at the cost of the prosperous imperceptibly. Thirdly, if the enterprise is a monopoly, the price policy should gear to the consumer's interests rather than profit-motive, and a vigilance from the top can make this objective successful by curbing the tendency of the Corporation to charge excessive price to yield revenue. Lastly, the

Government should see that the public Corporation is administered within the frame work of the broad policy of the Government, and the Government can reasonably intervene through the issue of directives to the Corporation with that end in view.

### Minister's Position

The Minister plays a dominant role in regard to nationalised industries. He, being in the top most rung of the ladder of administration, enjoys overwhelming powers. The powers of the Minister in relation to the public Corporation broadly cover two areas : (a) Administration and (b) Finance. In the administrative side the Minister's powers are exercised in respect of appointment and dismissal of the members of the Board, general policy of administration and internal management functions in a broad sense. The powers of the Minister are largely defined in the nationalisation statutes. The powers of the Government to appoint the members on the Boards of the public Corporations are laid down in the respective Acts.<sup>1</sup> But the Acts do not state the qualifications of a member but provide for certain conditions that would disqualify a person to be appointed on the Board. The choice of the Minister in regard to this appointment is undoubtedly of great significance. The propriety of the Minister becoming himself as a Board member is open to question. It is generally accepted that the Minister should not be appointed as a Board member as this militates against his independent position as the instrument of the Government *vis-a-vis* the Board. Imagine his awkward position when the Minister is a party to the formulation of the policy of the Board as its member, and the policy is questioned in Parliament. The Minister under such circumstances cannot but feel inclined to defend the action of the Board. Moreover, as the Rangoon Seminar looks at it, "if a Minister serves as a director, he may well be placed in the equivocal position of being made a party to actions which he will subsequently have to review in his supervisory capacity, or of dealing with fellow

<sup>1</sup> For example : Sec. 4 of Air Corporation Act, 1953. Sec. 4(1) of LIC Act, 1956, S. 10(a), 10(b) of the IFC Act '48 Sec. 4(1) of DVC Act, 1948 etc.



Board members whose appointment and dismissal are within his authority"<sup>1</sup>. In Great Britain, no Minister functions as a member or the Chairman of the Board of any nationalised industry. In India, however, in some public corporations, the Minister acts on the Board either as the Chairman or as a member. For instance, the Minister of Mines and Fuel is the Chairman of the Oil and Natural Gas Commission ; the Minister of Labour is the Chairman of the Employees' State Insurance Corporation ; and in another public sector undertaking, the National Industrial Development Corporation, the Minister of Industries and Commerce is the Chairman. There is inherent weakness in the conception of such Boards, with the Minister as the Chairman, as in it the other members are likely to feel complacent over their action being shielded by the sense of having the Minister by their side and more often than not, the responsibility of other members is shelved and a tendency develops to "pass the buck" to the Minister, as he is a party to the decision. The presence of the Minister at the Board meeting may provide a stimulus to the members to act with a sense of protection but this certainly cannot be a defence for this type of Board.

The Ministerial control over a Board manned by the private stock-holders is generally less than that over a Board manned by members appointed by the Minister himself. In the financial institutions in India, however, such as Reserve Bank of India, State Bank of India and the Industrial Finance Corporation, a number of Board personnel come from the stock-holders but here the Ministerial powers are not curtailed and, on the contrary, the assertion of the Minister's powers is amply demonstrated in the issue of various directions by the Minister to IFC from time to time. This is more possible when the components of the stock-holder are largely the public institutions or semi-public institutions over whom the control of the Government already exists. But if the principle of participation of private capital in the equity capital of a public Corporation, as suggested by the Estimates Committee<sup>2</sup> were

<sup>1</sup> Ibid p. 24 See also Herbert Morrison : *Government and Parliament*, p. 264.

<sup>2</sup> 16th Report Para 6.

accepted the situation might substantially alter. The elected persons of these shareholders on the Board would be likely to resent ministerial intervention, and this would put a restraint on the exercise of 'the Minister's powers. In this context the observation made by the U. N. with regard to the condition prevailing in Columbia, is instructive, as in such circumstances, a majority of the Board of some of the most important enterprises are manned by private groups which can be held accountable to neither the Government nor the people.<sup>1</sup>

With regard to the association of Civil Service personnel with the Board, the Government seems to be complacent as it can be guessed from the words of Dr. C. D. Deshmukh, the then Finance Minister. "One precaution that is invariably taken," he stated, "is that the Financial Representatives, at a very high level—either a Joint-Secretary or Secretary is attached to that concern as a director although it is not said that everything shall be done with his concurrence, in practice that result is bound to follow. Because if he is over ruled, well then he can report the matter to the Ministry of Finance, and the Ministry of Finance can then take up the matter with the Corporation and move Government to make the necessary changes which will ensure that financial advice is taken"<sup>2</sup>. The association of an official with the Board is therefore admitted as a measure of restraint on the freedom of action of the Board in financial and other important matters and at times the possibility of his over-ruling the other members cannot be ruled out.<sup>3</sup> The Estimates Committee did not favour the appointment of secretariat officials as Board members as "the presence of the Secretary to Government on the Board of a Corporation or a public utility undertaking, particularly one which runs at a loss, would only result in his becoming a party to its state of affairs and mismanagement and consequently he will find it difficult to retain an objective outlook on major issues such as the regulation and management of economic policies which a Secretary to Government should possess"<sup>4</sup>. Similar views were

<sup>1</sup> U. N.— *Some problems* etc. p. 26.

<sup>2</sup> Lok Sabha Debates dt. 10. 12. 53., Col. 1922.

<sup>3</sup> The Estimates Committee 9th Report (1953-54) p. 16.

<sup>4</sup> Estimates Committee 41st Report para 13.

expressed in the 39th Report of the Estimates Committee in particular reference to Messrs. Bharat Electronics Ltd. that "the Board of Directors should not have an overwhelming majority of officials as the presence of a large number of officials invariably tends to bring to the organisation and its functioning, an official approach of a type which is generally found in most Government Departments"<sup>1</sup>. But the Government's reply to this is defensive of the set-up, as in their opinion, "the presence of some officials on the Board of Directors is necessary as the majority of the matters which come up before the Board have financial implications and an impact on Government policies regarding equipment. The association of Secretariat officials, therefore, helps in taking decisions and in accelerating matters"<sup>2</sup>.

An analogy is sometimes drawn about the Minister's relationship with the public Corporation with that of the Managing-Director of a Company but the position is fortunately not so, because of the special characteristics of the Corporation where there is no shareholder in the sense as in a company. The Minister on the other hand, unlike a Managing Director of a company, does not undertake the responsibility of day-to-day management of the undertaking and is not answerable to Parliament as the Managing Director is to the shareholders of a company. The Minister has of course a great responsibility for the ultimate success of the Corporation but it is not to be compared with that of the Managing Director. The Minister stands out in a very important position with regard to his powers and responsibilities about a public Corporation on the one hand and his duties and obligations to Parliament on the other. His position is that of a liaison between the public corporation and Parliament which assumes a larger importance than those in the case of a departmental undertaking. In discharging his functions about public corporations, he must proceed with caution and restraint so that the freedom of the Corporations is not curtailed to an unduly large extent by his excesses or interference with the Board's management. In the U.K. there is mixed feeling about the exercise of Ministerial powers. For

<sup>1</sup> Paras 51 and 52.

<sup>2</sup> 68th Report (2nd Lok Sabha) 1959-60 in reply to 39th Report of the Estimates Committee *op. cit.*

example, the Minister of Civil Aviation has been criticised as having "acted for more as though he were a member of the civil aviation Boards than a Minister,"<sup>1</sup> whereas the opinion about the Minister of Transport goes that he has "intervened least of all"<sup>2</sup> and he "does not appear to have played a large part in the affairs of the British Transport Commission"<sup>3</sup>. In fact, the Ministerial action is liable to be differently interpreted and sometimes misinterpreted if powers of control are not exercised with due care and caution and on reasonable grounds. The crux of the problem, therefore, lies in striking out a balance between the corporate freedom and the ministerial control on a careful thought and rational judgment of the situation.<sup>4</sup> The Ministerial excesses are deplorable in view of autonomy assured to the Corporation. The instances of the Damodar Valley Corporation struggling to maintain its autonomous character against the over-all Ministerial control is a sad commentary.<sup>5</sup>

The powers of the Minister, in appointing the Board members may be taken up first for discussion. Accepting the principle that the authority of appointment be vested in the appropriate Minister rather than directly or indirectly in any outside agency, it is pertinent to consider the area of choice of the Minister to man the Boards. While it is agreed on all hands that a public Corporation must have the "best brains" on its Board, the area of choice of the Minister has, however, been narrowed in one or the other way by the exclusion of certain category of personnel either by express provision of law or by convention. The Corporation Acts in India provide the disqualifications of the members to continue to serve on the Board rather than outlining the character of a personnel for appointment on the Board. The Minister, as the law provides, has the power of appointment as well as power of nomination to the Board. The convention in England excludes some category of persons to be appointed on the Board, such as members of Parliament and civil servants. But in the Indian law except in

<sup>1</sup> Ernest Davies : *Ministerial Control and Parliamentary Responsibility* in Robson W. A. (ed) op. cit. p. 112.

<sup>2</sup> Action Society Trust : *The Powers of the Minister* p. 7.

<sup>3</sup> Ernest Davies : *Ibid* p. 112.

<sup>4</sup> Robson W. A. op. cit. p. 310.

<sup>5</sup> Gorwala A. D. *Ibid* p. 33.

DVC<sup>1</sup> no restriction has been embodied in the statutes against appointment of Members of Parliament or State Legislature, although there is consensus of opinion to exclude Members of legislature to serve on the Board<sup>2</sup> to keep the Board outside the ambit of politics,<sup>3</sup> albeit the practice is otherwise.<sup>4</sup> But the common feature of disqualification of a member in all Acts is the holding of any interest financial or otherwise that is likely "to affect prejudicially the exercise of performance by him of his functions as a member,"<sup>5</sup> and if he is directly or indirectly interested in any subsisting contract with the Corporation he is to disclose the nature and extent of his interest.<sup>6</sup> In principle, MPs should be excluded from membership of a Corporation Board. Taking a practical view, however, it seems very difficult to follow this principle in the face of acute shortage of able personnel to man the Boards at least until adequate inbreeding is assured. In selecting a member of the Board the Minister should no doubt be guided more by consideration of his personality and ability of performance than his party affiliation or allegiance to some political group or otherwise. Undoubtedly, the Minister is to appoint persons in whom he can repose his confidence and who, he believes, would have the proper allegiance to the Corporation and to the Ministerial directions. The judgment of the Minister, therefore, stands to test as he is expected to be above any outside influence in regard to such appointments as well as he should not be impelled by personal predilection, favouritism or nepotism. The acid test of eligibility of a person for appointment on the Board is his successful performance in this particular line of enterprise or other fields in the past, having independent views and sense of personality not to become "the Minister's stooge"<sup>7</sup>. The Chairman of the Board must undoubtedly be not only a man

<sup>1</sup> S. 4(2) (a) of DVC Act.

<sup>2</sup> I. I. P. A. Seminar, op. cit. p. 28.

<sup>3</sup> Report on Rangoon Seminar : *Also Krishna Menon Com. Report 1959. Paras 28 & 42.*

<sup>4</sup> See composition of the Boards, Annexure to Chapter III.

<sup>5</sup> S. 4(2) of LIC Act, 4(2) of Air Corporation Act, etc.

<sup>6</sup> Sec. 4(2) of DVC Act, S. 4(3) of LIC Act, S. 4(3) of Air Corpsns. Act.

<sup>7</sup> R. H. Thornton : *Nationalisation—Administrative Problems inherent in a State-owned Enterprise* p. 12.

of high calibre but of a towering personality to exercise the influence of his presence in the Board as well as to resist the informal ministerial views to prevail on his independent action performed in consonance with the policy of the Board. The unhappy episode in Life Insurance Corporation of India, in regard to dealings in Mundhra concern shares in which as Mr. Justice Chagla remarked that the Chairman and the Chief Executive Officer seemed "to have been overborne"<sup>1</sup> by the Secretary to the Government indicates two important aspects of the matter. Firstly, the Chairman and Board members should not be weaklings as to become pusillanimous in exercising their judgment and to abdicate their own duties. Secondly, the Minister should never bear a wrong conception of his functions and responsibilities to overawe the Board by informal views expressed by himself or put through his Secretary, as in the case of LIC episode it has been accused that "although the hands were the hands of Mr. Kamat (the Chairman) the voice was Mr. Patel's (the Secretary to the Minister) voice"<sup>2</sup>.

The choice of personnel of the Board is certainly not an easy task. In this regard the indications given by Mr. Herbert Morrison are instructive, as he said, "we must insist upon all the members being persons of business ability and capacity," and "the people in charge, certainly the Chairman of the Board, must have great industrial and managerial ability, and we must be prepared to pay what is necessary in order to secure that ability, if the undertaking is to be efficient and if the ordinary work people are not to be let down by incompetent management at the top"<sup>3</sup>. There are however problems in India to have a free choice of personnel not only due to non-availability of talents but successful men of business ability of the private sector are generally loath to work on the Board of the public Corporations, as the opinion, in general, goes that the Board is so hamstrung by the ministerial interference and Treasury control that the autonomy of the Board loses much of its significance. This

<sup>1</sup> *Report of the Hon'ble Mr. M. C. Chagla, Chairman of the Commission of Inquiry into the Affairs of Life Insurance Corporation of India*, February, 1958. p. 19.

<sup>2</sup> *Ibid* p. 19.

<sup>3</sup> *H. C. Debates* Vol. 250 Col. 54-9.

sense of overawful position of the Minister is bound, to keep the men of stature away from accepting any assignment in a public corporation. The remedy lies in the broadening of out-look of the Minister in dealing with the Board, to repose confidence in the abilities of its members and developing a free understanding between the Minister and the Board. It is often apprehended<sup>1</sup> that the continuity of service and renewal of its tenure being in the discretion of the Minister is a weak feature as it tends to reduce the Board to a subordinate position and the members are prone to act according to the ministerial wishes abnegating self-conscience. The apprehension has often been proved to be true in practice in India,<sup>2</sup> and it can be allayed only by making the Board effective in its approach by keeping the Minister informed of its views and if any "clash" occurs, the best remedy could be found by referring the matter to the Cabinet to have a final and binding decision.<sup>3</sup> In selecting Boards' personnel, however, the integrity of a man should receive the foremost consideration.

The circumstances of dismissal have not been uniformly provided for in the Acts in India. For example, in the L.I.C. "the Central Government may remove any member, who in the opinion of that Government, has so flagrantly abused in any manner his position as a member as to render his continuance as a member detrimental to the public interest."<sup>4</sup> In the I.F.C. "the Central Government may at any time remove the Chairman from office."<sup>5</sup> And the Board can remove a member in case of any disqualification as provided in the Act,<sup>6</sup> In D.V.C. a member may be removed inter alia if "he is held unsuitable to continue as a member."<sup>7</sup> A member of Rehabilitation Finance Administration may be removed at any time by the Government "for any reason, which may appear to it to be sufficient."<sup>8</sup> The Minister's

<sup>1</sup> JVS. Ramasastry—*The Management of Nationalised Industries* in *Indian Journal of Economic* Oct. '54 p. 105.

<sup>2</sup> Affairs of LIC is an instance in point.

<sup>3</sup> P. C. Jain : Article—*The Management of Public Enterprises* in *the Statesman*, Republic Issue Jan'y. '60.

<sup>4</sup> Rule 6 of L. I. C. Rules, 1956.

<sup>5</sup> Sec. 13(I) of IFC Act.

<sup>6</sup> Sec. 12 of IFC Act.

<sup>7</sup> Sec. 51 of DVC Act.

<sup>8</sup> Sec. 6(I) of R. F. A. Act.

powers of removal of the Board member are, therefore, wide and discretionary on his part but in practice there is no dismissal except in the case of LIC<sup>1</sup> and Dandakaranya Development Authority.<sup>2</sup> Member intended to be dismissed is to be provided with an opportunity of defending his position. This provision of law is equitable. It appears however that before the situation deteriorates to such an extent prompting the Central Government to act towards dismissal, a member, who is a man of stature, would prefer to relinquish the charge on his own volition<sup>3</sup> rather than awaiting his removal by the Government. Nevertheless, it is true that the Ministerial action in this sphere should be on a very rational judgment and subject to the approval of the Cabinet so that the Cabinet may apprise themselves of the situation, and assess the justifiability of removal of a Board member.

### Foreign Experience

The experience of the relationship of the public corporation with the Minister in the developed countries can offer a guide for the Indian cases. In the U.S.A., the relationship of the T.V.A. to the President has been "very close", where all tasks of the policy formulation and decision were, of course, performed by the directors, but when major decisions had to be made or when particularly difficult problems or disagreement among the directors, were involved, it was to the President that the Board

<sup>1</sup> Mr. L. S. Vaidyanathan was discharged and Mr. Kamat was transferred from LIC as a sequel to the Enquiry into LIC Affairs in Mundhra concern shares.

<sup>2</sup> Mr. Fletcher was removed from DDA by the Minister due to "difference of opinion".

<sup>3</sup> Recent resignation of Mr. Ganpati, the experienced General Manager of the Steel Plant at Rourkela, who made no secret of the fact that he was resigning in protest, is an eye opener, as this would be a normal course open to a man of stature serving on the Boards. The earlier resignation of the first Chairman of E. S. I. due to difference with the Minister is also a case in point. Prof. Robson urges that where resignation is owing to a disagreement with ministerial policy the reason for resigning should always be openly stated: *Nationalised Industry and Public Ownership* p. 160.



looked for direction and assistance.<sup>1</sup> The Ministerial control has been provided in greater degree in the British nationalisation Acts in post-1945 periods than in pre-1945 periods, as Mr. Morrison observed, "We felt, the pre-war ministerial powers were insufficient if the Boards were to be made properly accountable and if they were to conform to the Government's economic and social policy." The national interest demands the ministerial responsibility to be discharged in a proper manner to ensure guidance from the top rather than interference. It is to be kept in mind, as Prof. Robson puts it, that "whereas Parliamentary control is more theoretical than actual, ministerial control is in practice more real than is publicly admitted," and this calls for a judicious and cautious exercise of the Minister's powers. In France, it is said, the ministerial powers are far less than in the U.K. and the U.S.A., because of the character of the Board which are composed of tripartite interests—Government, employees and consumers, but still the appropriate Minister appoints the Governing Board and fixes their "remuneration"<sup>2</sup> and he also exercises wide powers, and in some sense in the sphere of finance, the Minister's powers in France are wider than in Britain.<sup>3</sup> In the Soviet Russia, there exists a Ministry of State Control which exercises control over the expenditure of material and monetary fund of all enterprises and organisations receiving allocations from the State Budget and also it has control over the fulfilment of Government decisions on economic and other related matters.<sup>4</sup> In Canada, the power of appointment, of course, vests in the Cabinet. But in all other spheres the appropriate Minister closely follows the British practice in exercising control over the affairs of the Corporations. In order to guard against the fallibility of the Minister's selection of Board personnel as well as their dismissal, it is suggested that this should be made with the approval of the cabinet so that the cabinet as a whole can be made ultimately responsible for appointments on the Board.

<sup>1</sup> C. Herman Pritchett op. cit., p. 186.

<sup>2</sup> Robson W. A. : Op. cit. 266.

<sup>3</sup> Robson W. A. Ibid p. 260.

<sup>4</sup> Alexander Bavkov : *The Soviet Economic System* in *Political Quarterly*. Vol. XXIII 1952 p. 54.

## Powers of Direction

The Minister's power of issuing directives is a topical issue and certainly a puzzling problem, which is not easy to solve. The occasion for issue of directives cannot be laid down on a very hard and fast rule, as it is rightly said by the Krishna Menon Committee that "It is neither possible nor advisable to lay down the occasions or the categories of occasions when a Minister should or should not issue a 'directive' or "special directive"<sup>1</sup>. The provisions in this regard in the Nationalisation of Coal Act, 1946 in Great Britain may act as a guiding principle wherein it is enacted that "the Minister may, after consultation with the Board, give to the Board directions of a general character as to the exercise and performance by the Board of their functions in relation to matters appearing to the Minister to affect the national interest, and the Board shall give effect to any such directions." This statutory power is a reserve power and a potential action of the Minister under certain conditions that would contribute to the national interest. The Indian law on this point has been diversely drafted in the various Acts. In the DVC Act<sup>2</sup> there is no such word as "in the national interest" but limitation on direction has been placed by the word, "on question of policy." But in the L.I.C. Act<sup>3</sup> the provision of issuing directives is "in the matter of policy involving public interest" and this provision is on the lines similar to that of the NCB ; whereas in the Air Corporation Acts<sup>4</sup> neither the phrase, "on question of policy" nor "involving public interest" appears. In this case the Central Government may give directions "as to the exercise and performance by the Corporation of its functions" which connotes directions for the sake of efficient conduct of the enterprise and is much wider in scope that may at times penetrate into the day-to-day affairs. The I.F.C. "shall be guided by such instructions on questions of policy as may be given to it by the Central Government"<sup>5</sup>. It is an accepted principle that a public Corporation is given largest autonomy in

<sup>1</sup> Op. cit. Para 60.

<sup>2</sup> Sec. 48 of DVC Act.

<sup>3</sup> Sec. 21 of LIC Act.

<sup>4</sup> Sec. 34 of Air Corporations Act.

<sup>5</sup> Sec. 6(3) of IFC Act.

its day-to-day management and the Minister's power of issuing directives is to be exercised in specific conditions on questions of policy in the public interest and this is the key position of the Minister vis-a-vis a public Corporation. No statute in India provides for prior consultation with the Board. The provision for prior consultation with the Board as in the N.C.B. before issue of directives is certainly based on a very generous outlook of reposing trust in the co-operation of the Board so that the Board may not feel eclipsed by the ministerial "shadowing". But similar provision in the Indian law could have done more harm than good because of the misconception of the powers of both sides and development of contrary pulls. Prior consultation would tend to make the ministerial wishes prevail upon the Board, as the tendency is well demonstrated in the members to have "complied with ministerial wishes rather than be directed" and in this circumstance the Minister would have a fine opportunity to shake off his responsibility to Parliament. The matter of issuing directions should, in the fitness of things, be in the exclusive discretion of the Minister. But the discretion has got to be used judiciously. Rightly, "this 'Damocle's Sword' swings above the Board table and need not fall to be effective"<sup>1</sup>. If the Minister is under the impression that his residual powers can be summoned even in the case of any minor lapse on the part of the Board that actually touches neither the wider public interest nor does it violate the laid-down provisions of law, his action would no doubt be an interference with the Board's action, in his magnified visualisation of the national interests and he is, in such condition, sadly on the wrong side. The criticism levelled in the U.K. in this respect is a pointer to the issue, as some of the ministerial actions on the BOAC regarding its operations, on the BEA regarding fixation of rates and prescription on broadcasting by BBC have been interpreted as "interference". The remedy certainly lies in the approach to the problem in the right direction, and the interpretation of the phrases "questions of policy" and "in the public interest" in their proper perspective to maintain a correct balance between ministerial interference and corporate independence.

<sup>1</sup> Ernest Davies loc. cit. p. 111.

The Ministerial directions in India cover a wide field from general nature to policy matters. For example, in the case of D.V.C. direction was issued to the Corporation in the matter of appointment and it was directed that "no appointment could be made without the approval of the Government if the salary exceeds Rs. 2,000/- per month"<sup>1</sup>. It is important to consider whether this directive is on questions of policy. The Act<sup>2</sup> empowers the Corporation to appoint "such other officers and servants as it considers necessary for the efficient performance of its functions," and neither by the Corporation Rules nor by the Regulations made by the Central Government any restriction on such authority has been provided for. The power of appointment of the personnel seems therefore vested exclusively in the Corporation. That being so, the directive undoubtedly militates against the expressly enabling provisions of law. In similar position in the case of LIC when by virtue of defects of categorisation many officers were given much higher salary than they were drawing immediately before the nationalisation, the Government merely asked LIC to look into the matter and did not "propose to interfere more than that because that would not be right"<sup>3</sup>.

These differences in the attitude of the different Ministers are indicative of the fact that "different ministers have interpreted their powers differently." The restriction on the matter of appointment is not only imposed on the DVC alone but also on the Employees' State Insurance Corporation and the Oil and Natural Gas Commission. But in the latter cases the restriction is imposed by regulation and not by any ministerial directive and in such cases controversy is far less. No doubt the line of demarcation between the policy matters and day-to-day affairs is delicate and the controversy is bound to arise on a certain matter whether it falls within policy matters or relates to administration. In case of doubt, the best remedy lies in amending or enlarging Regulations rather than issue of the ministerial directions which may make the controversy more

<sup>1</sup> *Lok Sabha Debates* dt. 10. 12. 53 Col. 1923 (C. D. Deshmukh).

<sup>2</sup> Sec. 6(3) of DVC Act.

<sup>3</sup> *Lok Sabha Debates* 1st Sept. 1956 Col. 1062 (Shri Morarji Desai).

acute and widen the areas of conflict between the Management and the Government. It should be borne in mind that if the ministerial directions are confined to policy matters, and there is no encroachment on administration, the efficiency of the enterprise is far more assured.<sup>1</sup> This spirit has well been preserved in the Directives issued to IFC "on questions of policy" in August 1948 directing the Corporation to conduct its operations in certain manner in respect of assistance to "industrial development in backward provinces and areas" to attain "a more balanced economic development," and on distribution of shares so as not to allow concentration of voting rights in the hands of particular groups or interests as well as in particular areas. These are the fundamental issues and are no doubt matters of policy. So is the character of directions issued in September 1959 relating to the percentage of margin against the cost of imported plant and to reduce the rate in any particular case "for special reasons recorded in writing". Similarly, the directive issued in December, 1959 with regard to the disposal of assets acquired by the I.F.C. u/s. 28 of IFC Act is a matter of policy. But it is pertinent to note that on matters of accommodation in certain circumstances, the Government did not issue any directives in exercise of its powers under section 6(3) of the I. F. C. Act but amended the Regulation 53, as the issue does not pertain to matters of policy but relates to administration of business of the Corporation. The Government should, therefore, issue directives on questions of policy affecting the national interest, while changes in general administration should be brought about by amendment of the Act and Regulations. Admittedly, there must be control over the Corporation but when the Board is manned by competent persons there is a good ground for exercising a remote control without encroaching upon the Boards' independence of action in the discharge of daily managerial functions.

### **Instruction and Direction Distinguished**

In course of conducting the enterprise both the Corporation and the Government would certainly feel necessity of consulting

<sup>1</sup> Rangoon Report op. cit., p. 24.

each other. It would, however, be unwise on the part of the Government to issue directive on each occasion of conflict of opinions. On the contrary, as Mr. Herbert Morrison observed, directions could be "rarely used", as more often than not, could the conflicts with the Corporation be resolved by securing "a substantial measure of agreement from the Board for his proposals"<sup>1</sup>. In India it is advocated that "Executive directions have to be confined to a very narrow pass. And particularly, in the cases where there are officers on the Boards of Directors of Corporations, it follows that these executive directions have to be kept within a narrow ambit"<sup>2</sup>. Mr. Morrison is of the view that Ministers should maintain close contact with the Boards but "on an informal basis" and relationship should develop on the "old boy" basis.<sup>3</sup> But such informal influence "behind closed doors", provides opportunity to the Minister to evade the public responsibility and "dilutes the whole conception of public responsibility"<sup>4</sup>. In course of debates in the House of Commons and House of Lords in 1950 a section of members expressed opinion that the relationship of the Minister with the Board should be "confidential, informal and easy" as "the efficiency of both is to be judged not by the number but by paucity in number of the formal directions that are given"<sup>5</sup>. And Action Society Trust finds, in practice the usual relationship "has been one of unminuted discussion, telephone conversations and unofficial contacts".

But this tendency to rely "on influence or pressure", according to Prof. Robson, "is misplaced in their relations between minister and the nationalized industries". Undoubtedly 'informal' relations should not go beyond a limit to by-pass the public responsibility of the Minister. Lord Reith is of the view that the minister's position *vis-a-vis* the public Corporation in regard to the powers of intervention and of direction— "why, when and how—should be specific and set down in language

<sup>1</sup> Action Society Trust : *Powers of the Minister in Nationalised Industry Series* p. 5.

<sup>2</sup> *Lok Sabha Debates* dt. 10. 12. 53 Col. 1963 (Dr. Krishnaswamy).

<sup>3</sup> Action Society Trust *Ibid.* p. 4-7.

<sup>4</sup> Davies Ernest—in Robson W. A. loc. cit. 309.

<sup>5</sup> *House of Lords Debates* July 5, 1950 Col. 77.

intelligible and unequivocal"<sup>1</sup>. Some of the Members of Parliament in India, in course of debates, also expressed the same view.<sup>2</sup> But this seems to be an unpractical suggestion as the matter of direction depends more upon the exigency of circumstances than upon fixed occasions.

The feelings about the ministerial directions in the British nationalised industries are conflicting, as the direction is looked upon on the one hand as a reflection on the ability and competence of the Board and on the other paradoxically enough, written directions are sought by the Boards "to protect their reputation" by making the directions known to the public through the Annual Reports in cases where the Minister "wishes them to take a certain line of action which may involve them in financial loss or otherwise impair the efficiency or good-will of their organisation," as was sought by the British Electricity Authority to implement the Clow Committee recommendation on winter surcharge.

Great controversy exists in the matter of the ministerial powers to direct the prices and rates charges of nationalised industry. In N. C. B. for example, as a result of a gentleman's agreement the prices could be raised only with the approval of the Minister, and the Board was not able to raise prices even for achieving a break-even position.<sup>3</sup> Similarly, in 1956 the Minister of Transport and Civil Aviation mildly withheld his approval from the proposal of raising charges made by the British Transport Commission in order to make up heavy deficits, although the Transport Tribunal did not see eye to eye with the Minister as, in its opinion, the ministerial intervention virtually overrode the statutory duty of the B. T. C. to pay their way. The Select Committee on Nationalized Industries has, however, held that in the case of price increase the ultimate

<sup>1</sup> Lord Reith—*Public Corporations ; Need to Examine Control and Structure in the Times* London dt. July 3, 1956 reproduced in *Public Administration* Vol. XXXIV 1956 (Winter) p. 352.

<sup>2</sup> Dr. Krishnaswamy and Mr. N. C. Chatterjee *Lok Sabha Debates* dt. 11. 12. 52 Col. 1963-4, 1973-4.

<sup>3</sup> N. C. B. *Annual Report*, 1956 HMSO AC 176-1/1956-7. Vol. 1 para 67.

say should rest with the Minister but there should be specific provision in the Statutes.<sup>1</sup>

In India, the ministerial intervention seems to be wider in practice and is exercised in a manner which "screens off accountability to Parliament"<sup>2</sup>. In an under-developed country informal talks are more likely to be taken by the Board as Ministerial wishes and the Board will be prone to act on it. "It is difficult", says Mr. Ernest Davies, "to define the difference between persuasion and pressure when the Minister holds the final sanction"<sup>3</sup>, and herein lurks the danger of the Board becoming a scape-goat of the Minister. In fact, the matter very much depends on the correct judgment of each other's position. If the Board is largely composed of the personnel who are bred more in the atmosphere of being commanded than to command, the Board is bound to be of servile spirit and can easily be drawn close to ministerial beck and call if the Minister is not prepared to face up to his responsibilities to the public by issue of written directives, as what has been given in private may be denied in public. The LIC episode is a glaring instance of informal pressure to show "how the Government can dictate to the Corporation although in form it may appear as a mere advice", and how an official acting on behalf of the Government, even without any definite instructions from the Minister, can create a sense of stupor in the Board and impel it to resort to the most irregular practice by abdicating its own duties and functions. Mr. Justice Chagla, therefore, recommended that "Government should not interfere with the working of an autonomous statutory Corporation ; that if they wish to interfere they should not shirk the responsibility of giving directions in writing"<sup>4</sup>. The Minister possesses overriding powers and the Board can hardly afford to ignore or be disloyal to ministerial wishes once they are made known to it. The informal and indirect interference is, therefore, deplored as it provides an

<sup>1</sup> H. C. 304/1956-7 paras 87-9.

<sup>2</sup> Article : *Public Corporation*, *The Statesman* dt. 14. 5. 58 and 15. 5. 58.

<sup>3</sup> *Government Policy and the Public in Political Quarterly* Oct.-Dec. 1955, p. 111.

<sup>4</sup> *Ibid* n. 23.



opportunity to the Minister to shirk his Parliamentary responsibility. "Control and interference by the backdoor must be guarded against," says Mr. Gorwala,<sup>1</sup> and the remedy lies not only in the consciousness of the Minister to maintain his public responsibility but also and by far largely in manning the Board by "men of strength, experience, goodwill and good sense" to resist ministerial excesses.

### Minister's Powers relating to Finance

The Minister's position relating to the financial powers is more important than those relating to administrative matters. The statutes in India have provided for the prior approval of the Government in respect of capital expenditure of any kind as well as depletion of assets. For example, in Air Corporations Act<sup>2</sup> it is provided that, "Neither Corporation shall without the previous approval of the Central Government—

- (a) undertake any capital expenditure for the purchase or acquisition of any immoveable property or aircraft or any other thing at a cost exceeding rupees fifteen lakhs ;
- (b) enter into a lease of any immoveable property for a period exceeding five years ; or
- (c) in any manner dispose of any property, right or privilege having an original or book value exceeding rupees ten lakhs.

Restrictions have been provided for at different limits of capital expenditure in different public Corporations. For example, in the Air Corporations, the limit is Rs. 15 lakhs, in the Oil and Natural Gas Commission the limit is Rs. 30 lakhs while the Employees' State Insurance Corporation has unlimited powers. The implications of the LIC and the DVC Acts are also towards the grant of full powers as there is no express restriction on capital expenditure in the Acts themselves, but some checks and balances no doubt are there by the provisions of submission of Budget and working programmes of the year.<sup>3</sup>

<sup>1</sup> Op. cit. p. 19.

<sup>2</sup> Sec. 35.

<sup>3</sup> Sec. 44 of DVC Act ; Sec. 36 of Air Corporations Act.

The L. I. C. in dealing with its funds enjoys larger power than any other Corporation with regard to capital expenditure.<sup>1</sup> All Acts provide for the borrowing of funds subject to prior approval of the Central Government.

The controlling powers of the Ministers with regard to the development and programmes of reorganisation involving "substantial capital expenditure" in other countries are however, none less than in India. In France, under the Decree of the French Coal Nationalisation Act of 1946 prior approval is required on various expenditure *inter alia* to "programmes of new works, production and working plans for the coal mines,"<sup>2</sup> and "government intervention in the affairs of an enterprise is more far reaching in France than in the U. K."<sup>3</sup> In Canada the Financial Administration Act 1951 provides<sup>4</sup> for the approval of the Minister of Finance even in the matter of maintaining bank accounts in the name of a Corporation. In the U. S. A., the Congress has much larger control over the financial administration of a Government-owned Corporation including the T. V. A. than the control of the Treasury over their counterparts in European countries. In Ceylon also the powers of the Minister on financial matters are wide under the Act.<sup>5</sup> It is, therefore, evident that the Minister has got a controlling power over capital and finance of a public corporation in all countries and this is quite in consonance with the Ministerial responsibilities to see that the national assets are best utilised for development purposes and not frittered away by rockless or injudicious administration. The position in India in this respect has been strengthened further by appointment of a Financial Adviser by the Government in the Corporation who is directly responsible to the Government and is to report any conflict between him and the Board to the Government for final decision. Though some controversy and anomaly over the position of the

<sup>1</sup> Sec. 6(2) of LIC Act.

<sup>2</sup> Robson W. A. (Ed) Ibid. p. 306.

<sup>3</sup> *Rangoon Report*, p. 23.

<sup>4</sup> Sec. 81(1) of the Act.

<sup>5</sup> Sec. 3 of the State Industrial Corporation Act (No. 49) of 1957.

Financial Adviser as in the case of D. V. C.<sup>1</sup> has arisen, it remains to be considered if such agency of the Ministerial looking-over-the-shoulder of the Board can be construed as "interference" with the management of the Corporation, and whether "the presence of a Government watch-dog" usurps the powers of the Board and reduces it to an undesirably subservient position. Prof. Hanson does not hold this as "a good method ; for control of expenditure is such an important function that the presence of a Government watch-dog can reduce the independence of a public enterprise to the vanishing point"<sup>2</sup>. But the matter should be considered in the context of Indian conditions where the public enterprise is just making its headway and many errors and lapses are likely to occur in the initial stages and this calls for adequate control over capital expenditure of the enterprise. The allegation of grave misuse or waste of public money is not wanting in India,<sup>3</sup> and as an agent of Parliament, which is the guardian of national assets, the minister has great responsibility to ensure sound administration of finance in a public Corporation and this requires to be done "in the public interest". But there should be guard against a narrow

<sup>1</sup> Dr. Sudhir Sen : *The Economics of Public Corporation in Capital, Annual Number* (1956) p. 73.

<sup>2</sup> Op. cit. p. 381.

<sup>3</sup> Some illustrations :—

- (i) Mr. Kumaraswami Raja characterised the D. V. C. as a "colossal waste" of public money. The Public Accounts Committee have also criticised some avoidable expenditure, 14th Report (2nd Lok Sabha) 1958-59 para 138.
- (ii) In case of Hirakud Dam, out of "the Rs. 68 lakhs bridge cost, 13 lakhs were wasted by errors of judgment, bad management, inadequate control over expenditure, and leakage of Government money".—Prof. Hart, *New India's Rivers*, 1956 p. 127.
- (iii) Bad and hasty investment by LIC in questionable shares in Mundhra concerns is another example, though in this case there was prior written Directives to the contrary issued by a former Finance Minister, Dr. C. D. Desmukh.
- (iv) Bad investment by I. F. C. in Sodepur Glass Works and by the R. F. A. without adequate and proper security is another instance.

interpretation of the phrase "in the public interest" so as to exclude pettifogging interference. A broad out-look should develop in the use of the residuary powers of the Minister in this behalf, and the control that would be considered necessary at the initial stages of development should be progressively relaxed with fructification of the project. The ministerial directives should never be a baby born of mutual mistrust or distrust and at the same time the presence of a Government representative or appointee in the Corporation should not be mistaken as a fulcrum of ministerial influence.

The Corporation that has funds from the appropriation of Consolidated Fund should admittedly come under the ministerial control. The Rules of Business under article 77 of the Constitution of India lay down that no departments shall without the previous concurrence of the Department of Revenue and Expenditure issue any orders which may involve any abandonment of revenue or involve any expenditure for which no provision has been made in the Appropriation Act. The Ministerial control in this respect is, therefore, statutory and direct and more marked in regard to enterprises entirely dependent on Government Treasury as in the departmental system. But in cases of the public Corporations, which are run on the principle of independent finance the control is remote. Nevertheless, the Minister assumes a much larger responsibility in matters of finance involving the national interest. Certainly, the direction in matters involving substantial capital expenditure as well as affecting capital structure of the Corporation in any manner should be given invariably in writing and there must not be any room for informal influence. Had this responsibility been borne in the mind, the Minister would have not come under so much adverse criticism in relation to the L. I. C. investment affairs.

Controversy at times over the occasions on which ministerial directives are to be issued as well as over a matter whether it falls within the ambit of policy or management cannot be ruled out. Some safeguard has been provided in this respect in the Indian law, for example, in case of the D. V. C. "if any dispute arises between the Central Government and the Corporation as to whether a question is or is not a question of policy,

the decision of the Central Government shall be final<sup>1</sup> and this provision is more or less uniformly provided in all statutes. In course of House of Commons Debate on the resignation of Mr. Hardie, as the Chairman of the Iron & Steel Corporation Mr. Bevan forcefully argued this point of final authority of the Minister to decide on the issue of national interests. According to him, it is dangerous to suggest that the Minister of the administrative department is less capable of judging the issue than the Board.<sup>2</sup> Indeed, "matters of supposed national interest if they conflict with the economic operation of the industry should be recognised as essential political matters to be decided by the Minister subject to his responsibility to Parliament"<sup>3</sup>. But when the dispute between the Government and the Corporation becomes flagrant some superior machinery should sit on judgment to settle disputes.

The basic principle to be followed in India can, therefore, be stated thus—(a) the minister should resist the temptation of invoking his residuary power of issuing directions as far as possible unless there is gross negligence of the Board or commission of an egregious mistake, (ii) petty fogging ministerial control should be scrupulously avoided because "if the Minister is too pliable or too opinionated his frequent interventions deprive the Boards of initiative and drive them to shelter behind him from public criticism,"<sup>4</sup> (iii) the phrases "on questions of policy" and "in the public interest" should be given a broad interpretation, although it is true that general principle of policy "may quite often arise from a host of small decisions of the day-to-day order, which collectively constitute something of a genuine public importance"<sup>5</sup>. But a caution should be exercised before a wider interpretation is imputed to the phrases to bring a certain ministerial action within their scope as "to much

<sup>1</sup> Sec. 48 (2) of DVC Act.

<sup>2</sup> 196 H. C. Deb (Col. 818) Feb. 1952.

<sup>3</sup> *Herbert Committee Report on the British Elec. Industry*, op. cit 1956 para 373.

<sup>4</sup> Article : *Parliament and the Corporation*, *The Times*, London dt. March 3, 1948.

<sup>5</sup> Hanson A. H. : *Parliamentary Questions on Nationalised Industries in Public Administration* Spring 1951 p. 52-53.

prodding" is undesirable<sup>1</sup>, (iv) administrative conflicts or irregularities unless they affect national interests should be settled as far as possible by persuasion and informal approach on both sides, (v) the direction in the sphere of finance should invariably be given in writing in clear and unambiguous terms to avoid the possible anomaly of differing and contrasting interpretations of the matters, and there should be no room for informal intervention in the financial sphere, (vi) disputes with regard to the propriety and on occasions for issue of directives should be referred to and decided by the Cabinet as the "Central Government" in this context cannot be the Minister who is a party to the dispute, and (vii) as the carrying out of the directions of the Minister is mandatory on the Board, the Minister in discharging this statutory power should assume full responsibility to face Parliament for public accountability, and "cannot be permitted to remain in the twilight zone", the channels of which are more informal "without disclosing either to the public or to Parliament the real extent of intervention"<sup>2</sup>.

### Minister's responsibility to Parliament

Powers and duties of a Minister, however, are set on a different footing in his relationship with Parliament vis-a-vis a public corporation. Parliament is the guardian of the public interest and invests special powers in the agency of a Minister to discharge the functions of public accountability of a public enterprise. The Minister's responsibility to Parliament can be broadly categorised into two classes : (a) placing Annual Reports of the Corporations and making statement on them, and (b) answering questions to Members of Parliament relating to the aspects of the Corporations. In all Corporation Acts there is provision for the Annual Report to be laid before both Houses of Parliament as soon as may be after it is submitted to the Central Government. The Minister stands as a liaison between the Corporation and the Parliament, and has a duty to keep the House informed of the working of the Corporation. Here

<sup>1</sup> Ashoke Mehta : Article, *Autonomy of Public Corporations*, in *the Statesman* dated 26. 2. 58.

<sup>2</sup> Robson W. A. : *Op. cit.* p. 310.

the Minister's position is never enviable as he has to encounter much pressure of adverse criticisms on the working of a Corporation which might prompt him to exercise more stringent control over the Corporation. The political system is largely responsible to shape the destiny of a country, and it also contributes to the theory on which the ministerial responsibility to Parliament rests.

### Day-to-day Affairs and Policy matters

In Great Britain, there is considerable restraint "in dealing with the ministers responsible for nationalised industries." Parliament in order to exert its rights should, however, distinguish between a nationalised undertaking under autonomous management system and a departmental enterprise as the minister stands differently under these two circumstances. A departmental enterprise involves the minister with all responsibilities including day-to-day management and the minister is answerable to Parliament for all aspects of the undertaking but in case of a public Corporation, the minister has no responsibility for day-to-day management and as such it is none of his responsibilities to Parliament in answering questions falling within the scope of its day-to-day affairs ; neither does Parliament question about them.<sup>1</sup> This characteristic is also admitted in India, as in course of debate, it has been observed by the Speaker on 16th Nov. 1953, that "the House is entitled to have all information that is reasonably necessary and just to judge whether the administration of a particular Corporation, which is autonomous, is being carried on properly or not. But it ought not to enter into the day-to-day details or very minor details so as to interfere with the autonomy of the Corporation"<sup>2</sup>. A question however emerges from the abuses or inefficiency detected in a public Corporation to consider whether that should fall within the scope of Parliamentary inquisition. For example, the programme of investment of LIC is admittedly a matter of day-to-day administration subject to the advice of the Investment Committee ; but when some grave abuse is detected

<sup>1</sup> For detailed discussion See Chapter VI.

<sup>2</sup> *Lok Sabha Debate*—see also Debates dt. 10. 12. 53 Col. 1911 as quoted by Dr. Lankasundaram.

as in the case of the L. I. C.—Mundhra deal, involving enormous public money lost “by way of gamble”, or there is a deliberate misuse of power by the Board that affect the Corporation as well as the public interest, it becomes pertinent to decide whether the matter can be questioned by Parliament. From all considerations such matters should be brought under the scope of Parliamentary questioning. Instance in point is the case of the Gold Coast where following the scandal of the Cocoa Purchasing Company, the Government proposed to extend power to Parliament to go in for discussion on “the day-to-day affairs”, while it expressed the hope that members would be restraint in their approach to this matter. The minister has to answer questions on matters for the House “to judge whether the administration of a particular Corporation, which is autonomous, is being carried on properly or not”, and the interpretation of this privilege of questioning should not be too flexible to encroach on day-to-day administration. Obviously, Parliament cannot disown its responsibility to have checks and balances on the public Corporation where national economy is involved but at the sametime it should show reasonable respect to the autonomous character of the Corporation, and never force the Minister to be drawn into the arena to fight an issue that really falls within the ambit of day-to-day management of the Corporation. The Ministers have to discharge their responsibilities to Parliament with regard to policy matters of the Corporations. But Parliamentary inquest is also allowed into the affairs of the Corporations which though pertain strictly to the range of daily management but are considered important as touching the fundamentals of the policy matters. For instance, the Speaker allowed discussion on the L. I. C. investment in the shares of the Mundhra concerns, as the matter was taken to be so important as to touch the fundamentals of investment policy of the Corporation with an eye to safeguard the public interest. But from the trend of Parliamentary questions it appears that the Indian Parliament entertains all kinds of questions and possibly this has led Mr. T. E. Chester to remark that “The Speaker of the Indian Parliament has in practice more or less automatically admitted all questions, and the responsible minister

<sup>1</sup> Hanson A. H. *op. cit.*, p. 373.



has assumed that he must answer them”<sup>1</sup>. This observation seems to be more or less correct as the “Oral Question and Answers” Reports indicate that Members enjoy unrestricted freedom of questioning on all matters of the public Corporation. The Ministers are heckled much more than necessary and their position is sometimes made awkward, and they feel an urge for more stringent surveillance even penetrating into the domain of the day-to-day management of the Corporation to save their position before Parliamentary assailing. Mr. T. T. Krishnamachari, the then Finance Minister, observed in connection with LIC, “The fact really is that the Finance Ministry does not run the Life Insurance Corporation. We have to interfere now and again when there is a labour trouble, when something is happening or when questions are asked. On one or two occasions, I have probably transgressed the limits of my power by going round and sitting and suggesting certain method of settlement, even which had to go to the Corporation ultimately for being ratified. So, the set up of the Corporation is that it is neither proper nor feasible for the Finance Minister to look into its day-to-day operation excepting to see how it works”<sup>2</sup>. In fact, the ministerial responsibility depends a great deal upon the behaviour of the Members of Parliament who are expected to avoid tendency to unnecessarily catechize the minister on matters that really falls outside the range of the ministerial vigilance and inherent in the responsibility of the management of the Corporation. Members should realise that the Minister never identifies himself with the Corporation, and he should not be made targets of attacks on all grounds indiscriminately, as that would make the minister’s position intolerable. Parliaments of young democracies are still to take the expected shape,<sup>3</sup> and the modification will largely depend upon the balanced judgment of the Speaker to allow or disallow questions on a distinction of responsibilities between the management of the Corporation and the Minister, and curbing the tendency of the Members to assert their demands on a misconception of their position and privilege.

<sup>1</sup> T. E. Chester : *Public Enterprises in South East Asia* in *Political Quarterly* April-June 1955 p. 51.

<sup>2</sup> *Lok Sabha Debate* dt. 16. 12. 57 Col. 5766.

<sup>3</sup> Hanson A. H. op. cit. p. 372.

But there is the other side of the picture, when the Minister finds himself much heckled by Parliament he may be forced to form a misconception of his duties and responsibilities to Parliament vis-a-vis the public Corporation. At one time he may disown responsibility on the ground of a matter falling beyond the scope of his functions and at another he may summon all his force to defend the action of the Corporation though wrongly. Instances of this kind are to be found in India<sup>1</sup> where evidently, the minister assumed the position of "the Managing Director" of the Corporation to defend the action. "Very often we find", alleges Dr. Krishnaswamy, "the spectacle of Ministers getting up to defend the Boards under the impression that it is they that are being criticised"<sup>2</sup>. The matter is, however, delicate. In case of discussion over a Report of the Parliamentary Committee in the U. K., Mr. Molson was of the view that the Minister could keep a neutral line when the matter is debated but this idea of the Minister's position did not get support from Mr. Herbert Morrison.<sup>3</sup> It is indeed too difficult for the Minister to maintain a "neutral line" as he will naturally feel an urge for defending the action of the Board, the members of which are his choice.

### Minister's responsibility

In the context of the above discussion, the ministerial responsibility to Parliament can be enumerated thus :—

- (i) The Minister has no responsibility to Parliament for any matter falling within the daily management of a public corporation.
- (ii) But when the day-to-day management is interfered with by a ministerial directive and it takes the shape of a policy matter, the Minister is answerable to a question tabled on such matters in Parliament.
- (iii) If the Minister accords his assent or dissent to a matter specifically referred to him by the Corpora-

<sup>1</sup> LIC. DVC., Hirakud, Hindustan Steamship and IFC.

<sup>2</sup> Lok Sabha Debates dt. 11. 12. 53 Col. 1963.

<sup>3</sup> Public Control of the Socialised Industries in Pub. Adm. 1950 p. 8.

tion, the matter undoubtedly falls within the responsibility of the Minister who is answerable to Parliament for such matter or matters.,

- (iv) The Minister is invariably answerable to Parliament on broad policy matters of the Corporation and the minister on no account can shirk this responsibility.
- (v) The Minister is answerable for any directive issued by him and for any matter in which responsibility is accepted by him.
- (vi) The Minister can be questioned on specific matters resulting from enquiry by a Committee set up by Parliament and on any matter involving the avowed principle of a public enterprise.

Action Society Trust has shown that much of the matter depends upon the self-interpretation of the rôle of the Minister and upon his personal feelings of the responsibilities. For example, it reports, "Mr. Barnes is the most skilful refuser and persistent evader of questions. In contrast, the new Minister of Fuel and Power, Mr. Noel Baker has proved the most willing of all Ministers to provide information."<sup>1</sup> Indian experience testifies to the great spirit of accommodation shown by the ministers to invite questions and answering them though it appears that sometimes the replies are sketchy, evasive, apparently dissatisfactory, and made with great deal of reservation. It is, however, not proper for the minister to shut out Parliament from important information on the affairs of the Corporation, and the offence is far greater when the mistakes committed by the Board in neglectful discharge of duty or at the behest of the Minister are concealed from Parliament in spite of inquest. This is exemplified by Mr. T. T. Krishnamachari's action of shutting out Parliament from the information about the L. I. C.—Mundhra deal even after it came already under criticism of Parliament. This fact was also recorded by the Bose Board with a feeling of resentment that "The Finance

<sup>1</sup> *Accountability to Parliament* (Nationalised Industries Series) 1950 p. 21.

Minister seeks to avoid disclosure of the facts in Parliament,"<sup>1</sup> and this fact was seized upon by the Members for criticisms and one of the Members remarked, "I do not know whether in the opinion of Government that is honourable conduct of a Minister which is expected in Parliamentary democracy".<sup>2</sup> It is in this context Mr. Justice Chagla attempts to lay down the principle that "In a Parliamentary form of Government, Parliament must be taken into confidence by the Ministers at the earliest stage and all relevant facts and materials must be placed before it."<sup>3</sup> Indeed, the Minister should scrupulously avoid a hush-hush policy as otherwise it would tend to create an atmosphere of mistrust and provide opportunity to impute motives cutting at the root of democratic socialism. Democracy demands that the administration of public enterprise should never be cloistered and the public must be taken into confidence. Strictly speaking, no hard-and-fast rule can be laid down about the occasion when the minister should or should not answer to a Parliamentary inquest, as the matter depends very much upon the judgment of the Minister's own constitutional responsibility on the one hand and "good sense" of the Members of Legislature not to unduly heckle the Minister for eliciting information about matters falling outside the scope of the ministerial responsibility on the other. Nevertheless, the country must be eager to know about the affairs of a public enterprise, and the furnishing of instructive, educative and truthful information, of course, goes a long way towards creating confidence in the Administration. In a young democracy, however, the range of parliamentary questions is likely to be large in the initial stages but a careful clipping will no doubt shape and marshal them into a delightful array and the Minister, aided by the Speaker, will find his position comfortable.

### Constitutional Responsibility of a Minister

A special feature in India has been marked by the developed concept of democratic socialism where the minister assumes direct responsibility for the mistakes of his officials. This is

<sup>1</sup> *Vivian Bose Board of Inquiry Report of L. I. C. Inquiry*, p. 150.

<sup>2</sup> *Lok Sabha Debates* dt. 7. 9. 59 Col. 6741 (Mr. Parulekar).

<sup>3</sup> *Chagla Enquiry Report* op. cit. p. 23.

the constitutional responsibility of a minister, and in the U.K. this important matter was debated in the House of Commons on 26.12.1950 and the principle was laid down that the Minister could not escape his constitutional responsibility in case of any mistakes done by the officials directly under his control. This British convention has been accorded welcome for application in India also and in Lok Sabha debates held on Feb. 19, 1958 on the constitutional responsibility of the Minister the principle has been accepted. The special feature of India lies, however, not in the theoretic postulation but putting this into practice as the Ministers resigned on ground of "egregious mistakes" of his subordinates. Shri Lal Bahadur Sastri, being conscious of his constitutional responsibility, resigned from office of the Minister of the Railways, due to a serious railway disaster at Ariyalur, Madras in 1957. In deference to the *obiter dicta* of the Chagla Enquiry Commission, which observed, "The Minister must fully and squarely accept the responsibility for what Shri Patel did and if the transaction is improper and unjustified although Shri Patel may be actually responsible for the transaction, constitutionally the responsibility is that of the Minister",<sup>1</sup> Shri T. T. Krishnamachari resigned from his office as the Finance Minister accepting his constitutional responsibility for acts of his Secretary Shri Patel relating L.I.C. Mundhra deal. But the assumption of personal responsibility by a Minister largely depends upon the Minister himself, attitude of Parliament and pressure of the public, as in similar circumstances there are no resignations of the Ministers. For example, the next Railway Minister, Shri Jag Jivan Ram offered no resignation although the number and magnitude of railway accidents in his time were much more than those during the ministership of Shri Lal Bahadur Sastri, and there was also public urge for his resignation following the Ranchi Express disaster. Similarly, in the U.K. Mr. Strachey did not resign his office for failure of "groundnut scheme" of the Overseas Food Corporation.

The constitutional responsibility as respected by the Ministers in a young parliamentary democracy like India is undoubtedly a healthy sign of democratic socialism and also a lesson for other countries. But however high morally that may

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<sup>1</sup> Ibid. p. 23.

be, a caution should be exercised before urging resignation of the minister for various reasons. The talent and calibre are but limited in India for a ministerial rank, and if "mistakes" either of his subordinates in the Ministry or Board Officials of a Corporation, even those that cannot be attributed directly to the Minister, are taken to be the primary consideration for a minister's resignation, India can hardly have a stable ministry as frequent reshuffling and changes in the ministry would be inevitable. The correct procedure should, therefore, be that if by way of his directions to the Board or for his assumption of a particular responsibility, the Corporation suffers any irretrievable loss or its objectives are foiled or there is irreparable retardation of its progress, and as a sequel to this, there is pressure of public opinion, not only in Parliament, as here "no confidence" motion can be lost by sheer force of majority of the political party in power, the Minister's should quit his position. The L.I.C. affair that culminated in the Finance Minister's resignation seems still shrouded in mystery even after a number of enquiries into the matter, as no responsibility could be squarely fixed on anybody. This position led a Member of Parliament to remark, "In the whole deal the most surprising thing is that though this has cost the Corporation millions of rupees, the Government its reputation, the Minister his political career, the Principal Finance Secretary his job and Shri Kamat his seniority, no body is to be blamed".<sup>1</sup> The Committees of Inquiry are also of opinion that "the whole truth" has not been told.<sup>2</sup> It seems, therefore, that Shri Krishnamachari's resignation has resulted more from the public pressure and implied reproach to him by the Inquiry Committee than from his sense of responsibility for the deal. But before imputing constitutional responsibility to a Minister, the matter would require a balanced judgement, and there should be no room for passion and indiscreet or unrestrained action of any kind.

### Separate Ministry for Public Sector

Now, it is important to consider whether the public enterprises of different types and character should be assigned in a

<sup>1</sup> *Lok Sabha Debates* dt. 7. 9. 59. Col. 6773 (Mr. Morarka).

<sup>2</sup> Bose Board Report p. 160.

decentralised manner to various ministries or there should be concentration of all public enterprises in one Ministry. The practice in Britain is decentralisation and the appropriate Minister is responsible for each type of nationalised industry attached to his ministry. This also seems to be the practice in the Western countries. But in the Middle East and the Far East regions different practices have developed and there are countries where there is concentration of miscellaneous public enterprises in one Ministry. For example, Turkey has the Minister of State enterprises, the Philippines have an Administrator of Economic Co-ordination created under Executive Order No. 386 of Dec. 1950,<sup>1</sup> Ceylon has concentrated all public undertakings in the Ministry of Industries, Japan has established a separate Ministry, the Ministry of Industries "for the purpose of operating and managing public Industrial enterprises", Indonesia has a peculiar system in which the State enterprises under IBW (*Indische Bedrijven Wet*) are supervised by the cabinet ministers "to co-ordinate enterprise policies with broad national policies"<sup>2</sup> in Thailand, the administrative staff are under the control of the Director General of the Ministry of Industry and the Minister of Finance. In India the issue is two fold ; firstly, to group together the similar industries in the public sector by process of amalgamation or otherwise, to be brought under a single administrative control, and secondly, to deconcentrate the public sector industries between separate ministries for administration. Prof. Hanson admits that with the growth of public undertakings there will be the need of deconcentration of responsibilities but he is opposed to the division of public and private enterprises in the same field between separate ministries. "The assignment of responsibilities," he observes, "for state enterprises to one Minister and that for private enterprises in the same field to another is bound, sooner or later, to give rise to anomalies"<sup>3</sup>. This is no doubt a strong argument applicable to a country having small numbers of state enterprises or having an ulterior motive to transfer the state enterprises to private sector. But in India there is an

<sup>1</sup> U. N. Seminar, New Delhi op. cit. paper No. 29 p. 2.

<sup>2</sup> U. N. Seminar *Ibid*, Paper No. 25 p. 5.

<sup>3</sup> Op. cit. p. 368.

unmistakable indication that the Government is determined to push up the public sector, and there is indeed a strong case for a separate Ministry for public enterprises for injecting into them more effective driving force as well as exercising proper controlling powers of the Government over their administration.

Now, it remains to be considered whether all public enterprises of diverse character should be assigned to this ministry. Certainly not. Because in that case, the co-ordination of divergent policies meant for diverse types of enterprises would be difficult and the resultant anomalous position may sometimes degenerate into a deadlock. In the fitness of things, therefore, the industrial and commercial enterprises in the public sector should be concentrated in one Ministry, while the financial organisations, development Banks etc., primarily concerned with providing initial or working finance for industries in the developmental programmes, should be left to the control of the Finance Minister. The Ministry of Commerce and Industry, Steel, Mines and Fuel, Food and agriculture, Irrigation and Power, Transport and Communication all should formulate the policies for the private sector in consultation with the suggested Ministry of State Enterprises and in cohesion with the policy for public sector enterprises so that there may not be room for misunderstanding or any policy to be incompatible with the larger national policy. This aspect should receive active consideration of the Government.

Whether the public enterprises are administered by a separate ministry or not, the Minister's responsibility in their efficient conduct is undoubtedly high and his functions would, to a large extent, be modelled through conscious public opinion and judicious parliamentary surveillance focussed on him.



## CHAPTER VI

### PARLIAMENTARY CONTROL AND ACCOUNTABILITY

Much controversy has arisen round the issue of accountability of a public corporation. The fundamental principle and objective with which the organisation of public corporation is associated have been very aptly brought out by Prof. Robson, as he observes, "the underlying reason for the creation of the modern type of public corporation is the need for a high degree of freedom, boldness and enterprise in the management of undertakings of an industrial or commercial character and the desire to escape from the caution and circumspection which is considered typical of Government departments".<sup>1</sup> To maintain a balance between the "degree of freedom" in the management of a nationalised undertaking by an independent Board on the one hand and its accountability and extent of parliamentary control on the other, is one of the most difficult issues and much has been written and spoken on the topic in almost all countries of the world. It is an accepted principle that the device of a public corporation is to achieve the best of the both world—freedom of action in conducting the enterprise and reasonable public accountability, as Mr. Morrison wrote that, in it "we are seeking a combination of public ownership, public accountability and business management for public ends".<sup>2</sup> An undertaking under departmental management is hedged round by rigid rules and inflexible procedure<sup>3</sup> where ready adaptability and innovation to the circumstances are an impossibility, and it comes directly under parliamentary scrutiny even in minute details and in this context the emasculated initiative and timidity of the persons at

<sup>1</sup> Robson W. A. : Op. cit. p. 16.

<sup>2</sup> *Socialisation and Transport*, London 1933 p. 149.

<sup>3</sup> Dr. Gyan Chand : *Public Corporations* in Agarwall A. N. (ed) *Public Corporations*, 1945.

the helm of affairs has been aptly described by Mr. Hugh Gaitskell, "Anybody who has worked in a Civil Service department would agree with me that if there is one major thing which leads Civil servants to be excessively cautious, timid and careful and to keep records which outside the Civil Service would be regarded as unnecessary, it is the fear of the parliamentary questions"<sup>1</sup>. Too much parliamentary probing would undoubtedly sap the boldness of management which is inimical to a public undertaking. The principle of a public corporation is, therefore, definitely towards maintaining a high degree of freedom in its operations at the same time ensuring its accountability to Parliament. The problem is delicate, and over-consciousness on the one side and overstepping of the other will inevitably lead to conflicts, and serious deadlock might ensue. It, therefore, calls for caution, restraint, wisdom and a pragmatic approach of the Parliamentarians and leaders to maintain the objectivity of the public corporation without, however, sacrificing their rights and privileges.

At the outset a question naturally crops up in mind as to the cause of such great controversies over the matter and why does the problem arise at all. A public corporation is brought into existence by a special and specific statute of Parliament and it may be cited as one of the causes of Parliamentary control over it. But the argument on this count, however, plausible that may be, is not all that calls for parliamentary inquisition. Enterprises under other forms of organisation are also governed by some basic law and if they are brought under public ownership their position becomes synonymous with that of public corporations. But there is a distinction however. A company form of organisation created by an executive action from its very inception shuts out the Parliamentary inquest<sup>2</sup>. Though in practice questions on this type of organisation are not generally disallowed, the executive has far more powers regarding a company than the Parliament. In this context the evidence of Lord Hurcomb quoted with approval in the Report

<sup>1</sup> Quoted by Gadgil N. V. : *Accountability of Administration in Indian Journal of Political Quarterly*, Jan.-March, 1955, p. 195.

<sup>2</sup> The Estimates Committee 80th Report (2nd Lok Sabha) '59-60 para 5.

of the Select Committee on Nationalised Industries' in the U.K., is a compact and comprehensive statement of causes that necessitate accountability of a public corporation. As he puts it, there is a "very real problem ultimately of accountability to Parliament" arising "from the vast amount of capital and of income and expenditure involved in concerns which are under public ownership, the charges upon consumers and users of the necessities of civilised life which they provide and the Treasury guarantee of the interest paid on the stock issued in respect of the various Nationalised Industries"<sup>1</sup>. These are no doubt the features of any public undertaking in which public money is involved and the public interest is the foremost consideration. It appears, therefore, that accountability of a public corporation is more inherent in the manner in which it is brought into existence.

The causal relation of accountability to the statutes may also be inferred by the changed attitude of the U.S. Government in controlling Government undertakings as well as the views of the Estimates Committee in India. In the U.S.A., in order to maintain an effective Congressional control as well as public accountability of the Government undertakings, creating of public enterprise by executive action has been forbidden by the express provision of the law,<sup>2</sup> which reads, "No corporation shall be created, organised or acquired on or after December 6, 1945, by an officer or agency of the Federal Government or by any Government Corporation for the purpose of acting as an agency or instrumentality of the U.S. except by the Act of Congress or pursuant to an Act of Congress specially authorising such action". The Estimates Committee in India<sup>3</sup> is also of the view that "all wholly State-owned public undertakings should generally be in the form of statutory Corporations, or, where necessitated by special reasons, in the form of departmental undertakings and the company form should be an exception,"<sup>4</sup> as according to

<sup>1</sup> H. C. 235 July 23, 1953, as quoted by Keyes C. O. in the article "Public Corporation" in *Political Science Quarterly* Vol. LXX p. 55.

<sup>2</sup> Sec. 869(a) of the Government Corporation Control Act, U. S. Codes 1946 Edition.

<sup>3</sup> 80th Report para 7.

<sup>4</sup> Ibid. para 5.

it, "The propriety of earmarking separate sums from the Consolidated Fund for a large number of public undertakings in the shape of companies, and putting them out of reach of normal Parliamentary control on expenditure on the ground that the undertakings are autonomous, is, therefore, open to question."<sup>1</sup> By sheltering behind a facade of autonomy", observes Shri Asok Chanda, "the Minister will escape accountability even though his control over these undertakings will be no less persuasive than his control over his Ministry for which he is fully accountable". Parliamentary control is, therefore, necessary on account of a complex of objectives not only to keep a surveillance over the conduct of the enterprise but also to ensure the degree of its freedom and flexibility of operation by slashing the excesses if they are unduly interfering with its operations.

### Commercial Freedom of a Corporation

But the problem hovers between the two opposite pulls commercial freedom and accountability, and the matter is yet to be settled. In all nationalised undertaking the basic principle is that the corporation "shall act so far as may be on business principles".<sup>2</sup> Business principles imply freedom of managerial action and flexibility of operations. The idea of a public corporation is no doubt to keep it within the compass of the statutes but not to put itself into a "straight-jacket". Freedom, however, is not meant here to be unfettered and absolute. On the contrary, managerial actions are controlled by the legislature. "It is natural", observes Mr. John Kenneth Galbraith, "that parliamentary questions will be put down on the public enterprises. Any suggestion to the contrary will seem most undemocratic.... Nothing is more reliable in a democracy than the instinct of the politician for the error of others"<sup>3</sup>.

Parliamentary inquisition is, therefore, concomitant with the public corporation and in a democratic society both the

<sup>1</sup> Ibid para 5.

<sup>2</sup> Sec. 9. of the Air Corporation Act.

Sec. 6(1) of LIC Act.

Sec. 6(2) of I. F. C. Act.

<sup>3</sup> *Industrial Organisation and Economic Development*, Colombo 1956 p. 12.

legislature and the public corporation have duty and responsibility to each other, which are appropriately termed as "Parliamentary control" and "accountability". The statutes do neither provide nor put any clarification about the occasion and extent of parliamentary control albeit there are provisions for accountability in some respects such as submission of budget, work-programmes and annual reports. The occasion and extent of parliamentary control cannot really be expressed in so many words in the statutes as in practice it will be seen that almost on the same set of facts and circumstances there may be difference of opinion whether there should be parliamentary inquest or not. Because at one time the situation may be interpreted as falling within the day-to-day management of the corporation and not to be meddled in, while on another occasion on a slightly different ground, parliament may invoke its privilege of motion. It is, therefore, agreed on all hands that there is necessity to strike a balance between corporate autonomy and parliamentary control to maintain proper relationship with each other. But the basis of this relationship is not "a positive law" but a "law of the situation" that influences the desired relationship. The balance between autonomy and control is a formidable issue and can never be laid down by express provision of law as the potential power of control of the legislature would tend to become active when prompted by the exigency of circumstances.<sup>1</sup> But this does not, however, imply that formal provisions are of no importance or are out of question. Truly, in course of working of the public corporation and Parliament's behaviour to it, there would develop a code of convention, behaviour, rules of business and principles of parliamentary control vis-a-vis the corporate freedom. At present parliamentary control in India is based much on the "Western" experience and the new code is in the process of development.

### Parliamentary Questions

A serious controversy exists about the occasion, nature and area of parliamentary questions. In the U. K., having the most developed Parliamentary form of Government, in the process of time, some convention has developed as to the occasion and the

<sup>1</sup> Hanson A. H. Ed. *Public Enterprise* p. 193-94.

extent of inquest of the legislature about the public corporations. The fact that day-to-day management affair of a public corporation falls outside the scope of parliamentary question is an admitted theory, and parliamentary questions are allowed on policy matters. The difficulty is encountered here and conflicts arise as to the circumstantial propriety of the questions. "The kernel of the problem is provision for safeguarding the national interest without encroaching upon the administrative independence of the Boards and usurping their managerial responsibility",<sup>1</sup> and that being so, the convention shuts out Parliament from raising any questions on matters that fall within the daily managerial operations and are not directly appertaining to any important policy matters. In all sense, questions which impinge on the normal administration of the corporation should always be disallowed and the Minister should also avoid such questions. If, on the contrary, he entertains such questions, he not only draws himself within the fold of Ministerial responsibility on matters falling outside his normal functions, but his action would also tend "to impair the Board's commercial freedom of action" as "the whole-hog" doctrine would inevitably lead to the development of an air of civil service in the organisation which is opposed to the principle of public corporation. In such circumstances, as Mr. Morrison observed "we shall not get the men to serve on these commercial undertakings, and we shall not get the best out of those who are there".<sup>2</sup>

Parliament has an unfettered right, however, to question and discuss on policy matters but not so about normal administration. But the distinction between the two is often too fine to distinguish as it is rightly said that "matters of policy merge imperceptibly into matters of day-to-day administration", and the fine illustration given by Captain Crookshank in course of the House of Commons Debates, shows how there comes a moment when "day-to-day management merges into the large question of administration" and becomes a subject of parliamentary question, as he rightly observed that one day's late running of a train is a matter falling within day-to-day management but if the same train runs late every day for a

<sup>1</sup> Mr. Ernest Davies : *Loc. cit.* p. 109.

<sup>2</sup> *H. C. Debates* Vol. 447 March 3, 1948 col. 456.

month it indicates something wrong with the administration somewhere, and the matter comes within the ambit of parliamentary questions and discussion.<sup>1</sup> The line of demarcation must, therefore, be arbitrary. Nevertheless, it is true that the British Parliament has imposed a "self-denying Ordinance" by which it avoids question about day-to-day affairs of the corporation to maintain commercial freedom of the Board.<sup>2</sup> India should also assiduously follow this convention and the Members should not read into it any "surrender or derogation of parliamentary authority". And this will not only relieve the Minister of an onerous and irksome duty but also imbibe a spirit of initiative and drive in the Board for conducting the corporation "on commercial principles".

But that is not all. The convention of the U. K. Parliament has grown by instalments and after acrimonious debates. The earliest ruling of the Speaker that no questions would be allowed on the same matter which was once refused by the Minister was modified and the fresh ruling provided for allowing those questions provided, in the opinion of the Speaker, "the matters are of sufficient public importance to justify this concession"<sup>3</sup>. Experience shows that the Indian Parliament has given scope to its Members to table questions on a very wide range without distinction between matters of daily management and those pertaining to policy, and "the responsible minister has assumed that he must answer them"<sup>4</sup>. This uniform treatment of questions undoubtedly leads to a blurring of responsibilities,<sup>5</sup> as the Minister here enters into responsibility on matters really falling outside his specified powers of direction or convention of control. Indeed, the admissibility of question is a big and controversial issue, which requires to be solved with scrupulous regard to the dichotomy of the ministerial responsibilities between management and policy-matters so as "to ensure corporate

<sup>1</sup> *H. C. Debates* Ibid. cols. 394-95.

<sup>2</sup> *H. C. Debates* dated 3. 3. 48., col. 455.

<sup>3</sup> *H. C. Debates* 7th June 1948 col. 1950.

<sup>4</sup> T. E. Chester : *"Public Enterprises in South East Asia in Political Quarterly*, April-June, 1955.

<sup>5</sup> Asoke Chanda : *Indian Administration* p. 200.

behaviour without damaging the springs of initiative and enterprise.”<sup>1</sup>

It is true that excessive exercise of parliamentary powers tend to stifle initiative of the Board, but it is at the same time true that insufficiency of parliamentary control can be more harmful. The executive caprices will then have a free hand in the corporation and the Board's unfettered and carefree handling of affairs will tend to repeat and perpetuate mistakes. It is true that “Public Corporations do not function in a political vacuum,” but the degree of control seems to vary from country to country, as it is dependent upon the behaviour of the public and the ideology followed by the party in power and form of Government in the country. But nevertheless, there is an underlying unity of thoughts that Parliament as “guardians of national assets” should have powers to control the public enterprise in the public interest, though the form and agencies of control may vary from country to country.

On more than one occasion the Parliament can call the Board to account for and there are six principal occasions when the matter comes up before Parliamentary inquest. These are (i) Questions hour, (ii) Adjournment Motions, (iii) Supply Days, (iv) Sponsoring of Private Bills, (v) Amendment of nationalised statutes and (vi) Debates on Annual Reports. Of these, the two that are considered the most important are Parliamentary Questions and Debates on Annual Reports. Regarding the admissibility of questions in India, a directive issued from the Speaker's office clarifies the position. The admissibility of questions relating to statutory corporations and limited companies in which Government have financial or controlling interest, is regulated generally in the following manner on the merits of each case :

(i) Where a question (a) relates to a matter of policy or (b) refers to an act or omission of an act on the part of a Minister, or (c) raises a matter of public interest, although seemingly it may pertain to a matter of day-to-day administration or an individual case, it is ordinarily admitted for oral answer.

<sup>1</sup> Majumdar D. L. : *Accountability in the Corporate Sector in The Indian Journal of Public Administration*. New Delhi Jan.-Mar., 1958. p. 65.



(ii) A question which calls for information of statistical or descriptive nature is generally admitted as unstarred.

(iii) Questions which clearly relate to day-to-day administration and tend to throw work on the Ministries and the corporations incommensurate with the result to be obtained therefrom are normally disallowed<sup>1</sup>.

The nature of this directive on admissibility of questions more or less compares with the convention prevailing with the U.K. Parliament but unfortunately it is honoured more in the breach than in observance. Inexperience in economic enterprise is a strong factor for frequencies of inquisition by the politically conscious electorate to know how the public money is being utilised and the extent of success achieved by an enterprise, through the forum of Parliament<sup>2</sup>. But it would, however, be too uncharitable to entertain the idea that Indian Parliamentarians are non-effective and inexperienced and guided more by political consideration than the public interest.

### Quality of Debates

Debates, said to be the "grand inquest of the nation", are the most important to bring out the features of a public corporation before the eye of the public. The occasion for debate comes primarily at the time of considering Annual Reports of the corporations and amendment of their statutes. In order to effect a full-dressed debate, a thorough and expert knowledge and information about the public corporation is necessary. Clearly, the Members are to be well-informed to show the excellence of debate not by jugglery of words but by demonstration of analytical study of the working of the corporation. Members have, therefore, to depend upon published accounts and audit reports and the views of the Boards on them that may be supplemented by information directly received by them from the Board, should they be given such privilege. Undoubtedly, the Accounts and Reports are the raw materials that are fabricated to frame the debate, and it is, therefore, necessary that the Reports are informative, educative

<sup>1</sup> Bulletin Part II, New Delhi, Lok Sabha Secretariat Nov. 18, 1958 pp. 1431-32 para 2005. Also *Lok Sabha Debates*, second series Vol. X (Sept. 17, 1958) cols. 6837-8.

<sup>2</sup> Hanson A. H. op. cit., p. 392.

and comprehensive. Clearly drawn out accounts and reports can help much in the parliamentary discussion by eliminating misgivings. The Annual Reports, if they be made in a hackneyed fashion, giving only achievements and no failure, holding justification of actions without showing the shortcomings of the situation, or if wrongs are concealed therefrom or matters published therein are but bromidic generalisations and put in a fashion evidently towards self-glorification, certainly fall short of the expected standard of Reports<sup>1</sup>.

The Reports of Indian Public Corporations are usually sketchy, unexposing, reserved and self-asserted. It is basically wrong to think that a Report should be jugglery of statistics and factual and non-committal. The defects that are generally noticeable in the Annual Reports of the public corporations in India may be enumerated as :—

- (i) There is no standardised form of accounts. Reports are heterogeneous in character. For example, the I.F.C., and L.I.C. in their Reports state the comparative figures of the last few years but such comparative figures are absent in the D.V.C. Reports, except in cases of some capital expenditure. The Estimates Committee suggested that the Government should initiate a study of the nationalised industries and public corporations of other countries to evolve "a common pattern" of Reports of the public undertakings in India<sup>2</sup>. The standardisation of Reports is, of course, a vital necessity.
- (ii) Practice in reporting on matters is also not uniform. For example, except the I.F.C. which is under obligation of specific Ministerial direction to do so, none of the other public corporations reports about the directives issued to the corporation by the Minister. Directives issued by the Minister are important matters by which the Minister draws himself to

<sup>1</sup> Hanson A. H. : *Report on Reports : The Nationalised Industries 1950-51 in Public Administration*, Summer 1952 pp. 112-13.

<sup>2</sup> 73rd Report, 2nd Lok Sabha, 1959-60 para 29.

parliamentary responsibility and their absence from the Reports is a serious lacuna. There should be specific direction from the Minister<sup>1</sup> as was made in the case of the Industrial Finance Corporation, that the directive and occasion for issuing them should clearly be stated in the Reports with the differing views of the Board, if any, for public knowledge. This will also help towards an illuminating parliamentary debate on the Reports.

- (iii) The Reports are in the nature of the glorification of achievements and a gloss over the working of the corporation. For example, the D.V.C. all through in its Reports has glorified its achievements in many fields and has never brought out the difficulties, defects and shortcomings to the public though the Estimates Committee does not give a "clearance certificate" to the D.V.C.<sup>1</sup>. A public corporation has the constitutional and moral responsibility to make honest reports about the working of the corporation, and should on no account conceal mistakes.
- (iv) The Reports seem to be static, and freshness is lacking as the same trend is maintained through several Reports of different years without justifying the views by facts. For example, the I.A.C. maintains the same vein about its satisfaction as to the industrial relations in several years' Reports. The language of the para 23 of 5th Report, for instance, is almost the same as in para 33 of the 4th Report, and does not reveal any fresh facts.
- (v) Profits are heralded but losses are pushed aside unprominently in the Reports. For example, in the I.A.C., the Report for 1955-56 itself does not mention about losses while profits in A.I.I. in that year have been highly sounded. This tendency is obviously wrong, and the Board must not fight shy of making the correct affairs known to the public through the Reports.

<sup>1</sup> 5th Report, March, 1952., 36th Report 1960-61.

- (vi) The Reports are often too much statistical. Reports of the Air Corporations are the illustrations, and one is apt to be lost in the maze of figures and can hardly distinguish woods from trees.

A reading into the Reports of the Corporations will show inadequacy of information to base a concrete opinion on it, as the Estimates Committee states that "even with regard to individual undertakings parliament does not get information in time with regard to their working and the state of their present condition, and even when the information is made available, it is found to be very often inadequate".<sup>1</sup> The Committee further notices that the Reports with a few exceptions, as in the case of L.I.C., "are not informative enough".<sup>2</sup> In Britain, the Report of the NCB is accepted as the best instrument as "it helps to secure a proper balance between the record of ends and means". The Reports of the public corporations need to be rationalised into a standard form to help debate on the matter and this requires an expert's job.

All statutory corporations in India are under obligation to submit accounts and reports to the Central Government and the Central Government "shall cause every such Report to be laid before both Houses of Parliament as soon as may be after it is submitted". The public enterprises under company form of management were not formerly to submit Reports on their activities "during the previous financial year" to the Government and this was characterised by the Comptroller and Auditor General as "fraud on Constitution", and the Company law was amended for the purpose ; Section 639 (1) of the Companies Act, 1956 now provides that "the Central Government shall cause an Annual Report on the working and affairs of each Government company to be prepared and laid before both Houses of Parliament, together with a copy of the Audit Report and any comments upon or supplement to, the Audit Report, made by the Comptroller and Auditor General of India". In order that the Members may be conversant with all points, the Hon'ble Speaker announced on 11th March, 1959, that in future Government companies may

<sup>1</sup> 73rd Report. 2nd Lok Sabha. 1959-60.

<sup>2</sup> Ibid. para 26.

despatch directly copies of their Annual Reports to the Members of Parliament immediately after their Annual General Meetings<sup>1</sup>. Hence, it is an accepted doctrine in India that the Reports are to be placed before the Houses of Parliament, and debates on them are to ensue. But it is unfortunate that no time limit has been fixed for the placing of the reports and as the Estimates Committee has shown, the time ranged from 3 months to 2 years 11 months<sup>2</sup>. There are divergent views on the time-limit for the Government companies to lay the Reports. For example, the Company Law Administration issued instructions to lay the Reports within 3 months of the Annual Meeting, and Section 166 of the Companies Act provides for the Annual Meeting within 9 months from the closing of the year which may be extended by further 6 months by the Central Government. Altogether, therefore, the time limit comes to 1½ years, which is "far too long a period", whereas the Comptroller and Auditor General suggested that "the Reports of the statutory corporation should be presented before the Budget for the next year is discussed in the Parliament". This anomaly should be resolved and the time-limit should be fixed on adequate consideration of facts and keeping in view the practice in other countries. For example, in the U.S.A. the time-limit is 6½ months and in the U.K. the conventional time-limit is 5 to 6 months. In India, there is another difficulty as the enterprises have no uniform accounting year. For example, the D.V.C., I.A.C., A.I.I. follow "financial year" as the accounting period ; L.I.C. has adopted "the calendar year as its financial year,"<sup>3</sup> while Rehabilitation Finance Administration has to publish "half-yearly" Reports, which is a singular case. While adoption of different accounting years can draw no controversy over it, the time-limit of laying the Reports before the Houses should not, in general, exceed 6 months from the close of the accounting year, and the phrase "as soon as may be" should be amended accordingly in the statutes. Debates on them may, however, be fixed on the basis of the time available to Parliament.

<sup>1</sup> 73rd Report of the Estimates Committee, para 18.

<sup>2</sup> Ibid. para 16.

<sup>3</sup> L. I. C. Interim Report August 1957 p. 1.

The quality of parliamentary debate is an effective control on the public corporation. If debates lack substance, the mere vituperation cannot bring forth any perceptible influence on the Ministry and the Board. But for a skilful debate a Member must be well-informed and expert in the particular field, and this often is sadly lacking in Parliaments, especially of the under-developed countries<sup>1</sup>, as politicians are not necessarily experts, and experts, more often than not, are not Members of Parliament. The inexpertness of Members is not, however, peculiar to India alone as in British Parliament the Members are also found to have no specialised knowledge<sup>2</sup> and the members have spent far too much time "mainly on matters of detail, to the relative neglect of their other opportunities for discussing nationalised industries".<sup>3</sup> Nevertheless, debates are necessary however inexpertly that may be made, but constant endeavour to improve the quality should be there to effect a real influence on the corporation activities.

### Direct Approach of MPs to Boards

In the U.K., Members of Parliament can directly approach the Boards for information, and, as Mr. Morrison stated, the letters addressed by Members of Parliament "will be received with every courtesy as we should wish them to be".<sup>4</sup> But the question arose if the same would be privileged and to this, Mr. Morrison remarked in the Parliament, "Matters arising here are privileged, but I should not have thought anything outside was privileged except if it was in a court of justice"<sup>5</sup>. An interesting point on privilege arose in the British House of Commons in July 1958 which is relevant to consider. The matter that caused discussion related to a letter addressed by Mr. George Strauss a Labour M.P. to the Paymaster General criticising the sale policy of the London Electricity Board, and the Board threatened him with a libel action, and the question arose whether Mr. Strauss's letter was "a proceeding in Parliament". The

<sup>1</sup> Hanson A. H. : Op. cit. p. 392.

<sup>2</sup> Acton Society Trust—*Accountability to Parliament, Nationalised Industries Series* 1950 p. 21.

<sup>3</sup> Robson W. A. Op. cit. pp. 316-7.

<sup>4</sup> *H. C. Debate* 4th March, 1948. col. 452.

<sup>5</sup> *Ibid.* col. 452.

House was sharply divided and ultimately concluded that the letter was not accounted a "proceeding in Parliament". This is undoubtedly a healthy convention set up and respected by the House although the last word on it is yet to be uttered<sup>1</sup>. The British Parliament, therefore, in extending consent to Members to approach the Boards for information, has denied the matter to Parliamentary privilege. In India, the Speaker in reference to a question on State Trading Corporation, has attempted to lay down the principle that "in all cases where the Minister is responsible under the constitution of the Corporation, all those can be asked here. . . . Regarding other details Hon. Members can always write to the Managing Director and get the information . . . . . and if it is possible to give that information it will always be supplied."<sup>2</sup> But in India, self-restraint of the Members themselves is far less than the Members of the Western Parliaments, and they are prone to dabble in all matters. If, therefore, the privilege of directly approaching the Board is extended, the Members would no doubt shower on the Board the onerous valley of queries on any range and this would tend to make the position of the Board intolerable. But to establish a healthy practice, M. Ps should have the privilege of having information outside the forum of Parliament which has also a special educative value. And this privilege should take a modified form and instead of approaching the Board directly they should approach through the Standing Committee to be set up for public enterprise as advocated below, which is to act as a go between. Further, the situation is more suitable for Members to approach through their Party spokesman rather than individually which would tend to keep the extent and volume of inquisition within manageable limit. The Standing Committee should also have an independent power of action in refusing to refer some questions on minor details or in the public interest. The apprehension that this Standing Committee is juxtaposed against the ministerial position will be allayed if there is parliamentary sanction behind it.

<sup>1</sup> *The Statesman*, Calcutta—Editorial comments dt. 22. 7. 58.

<sup>2</sup> *Lok Sabha Debate* vol. XX 1958 second series dt. Sep. 17, 1958 col. 6837.

A roving debate is sometimes ineffective and it is suggested that a full-dressed debate on each public corporation should take place at least once a year and the proceeding should be made known to the corporation to enable it to have an idea of the trend of thought prevailing about the undertaking, and to plan future activities accordingly. In order to assist the Minister in replying to the debate the Chairman or a Member of the Board nominated by him can be present as an invitee as well as can function as a Parliamentary Secretary to the Minister, and this would have a special impact on the Board. A member of the DVC generally attends the legislatures both at the Centre and at the States at the time of its budget discussion.

### Parliamentary Organs

There are various agencies of Parliament that can probe into the activities of the public corporations to assess their working results. At present the Estimates Committee of the Lok Sabha and the Public Accounts Committee examine the various aspects of the public enterprises. The Reports of the Estimates Committee are claimed to "bear testimony to the thoroughness with which it examined the working of the undertakings, pointed out organisational, financial and operational defects wherever they were noticed and suggested improvements".<sup>1</sup> The Reports of the Estimates Committee are no doubt a helpful document and as Prof. Hart observed in relation to the D. V. C. and Hirakud, both the Estimates Committee and the Public Accounts Committee "conducted surprisingly constructive enquiries into both agencies" although "there is still too much suspicion of the agencies on the part of an ill-informed Parliament, and too much insulation of the building and operating authorities from legitimate Parliamentary curiosity and concern".<sup>2</sup> The Public Accounts Committee in their *ex post facto* examination of the financial results also contributes to the ammunition of parliamentary weapons by citing examples at random of abuses and wastes of the public enterprises, for

<sup>1</sup> Balvantrai Mehta : *Public Enterprises and Parliamentary Control in Indian History of Public Administration*, Apr.-Jun 1958 p. 148.

<sup>2</sup> *Op. cit.* n. 163.



example, in the 10th Report (First Lok Sabha) the Committee remarked that the Indian Telephone Industries Ltd., a Government company, had spent about Rs. 95 lakhs of public money indiscriminately on stock which was not put into use, and suggested disciplinary action against the officials at fault. Similarly, the P. A. C. recorded displeasure over the purchase of pleasure boats by the D. V. C.<sup>1</sup> The Reports of these Committees seem to be effective. An analysis of the Reports and actions taken on them reveal that "over 30% of the recommendations" of the Estimates Committee have been generally accepted by the Government.<sup>2</sup> The Estimates Committee seems to leave no aspect untouched from its probe and are also prone to enter into minute details which are sometimes tantamount to overstepping of the limit, and their attitude of "fault-finding" tends to stifle the initiative of the Boards by reason of the Committee's "big list of advices".

### Standing Committee

Now, the question arises whether these two Committees are adequate instruments of Parliamentary inquest with regard to public enterprises, or there should be a separate parliamentary Committee for the purpose. In practice, besides these two Committees, there may be more agencies of Parliament, such as Ad Hoc Committee on specific issues, permanent Standing Committee or a Committee set up for periodic surveys. There is conflict of opinion on this score as revealed during the seminar held under the sponsorship of the Indian Institute of Public Administration, New Delhi, in December, 1957.<sup>3</sup> Some have expressed their opinion in favour of "setting up a Committee of Parliament distinct from the Public Accounts Committee and the Estimates Committee, as neither of these Committees has been able to "apply its mind fully to the various problems which many of these public enterprises often face", and this is found all the more necessary in so far as the members "are probably not in a position, even if they so desire, to exercise the necessary

<sup>1</sup> 14th Report, 2nd Lok Sabha, 1958-59 para 138.

<sup>2</sup> David C. Potter : *Public Enterprises : Parliamentary Control or Accountability ?* in *Indian Journal of Pub. Admn.* July-Sept. 1959 p. 330.

<sup>3</sup> Seminar Report pp. 9-14.

vigilance over these far flung and far-foliating industrial enterprises". Whereas many others are of the view that the setting up of a special Parliamentary Committee was a "dangerous step to take", and an infringement on "Parliament's solid right and sovereignty" and "the duplication of Parliamentary Committees would not only lessen the responsibilities of the existing institutions but create a great deal of conflict and disharmony between Parliamentary Committees". They, therefore, advocate the retention of right of the existing Committees over the scrutiny of public enterprises.

Many public corporations are likely to be set up in India in the future, and the Estimates and Public Accounts Committees which are already overworked can find little time to cope with the larger responsibilities in this particular field. The large stake of public money and the public interest involved therein demand proper vigilance and concrete suggestions of improvement from the appropriate agencies of Parliament. It is worth noting that most of the leading countries have special agencies of legislature for effective accountability of the public corporations. In the U. S. A., there are Congressional Committees and these are effective bodies to bring about improvement on the working of the Government-owned corporation. For example, a Congressional investigation "brought about reorganisation of the Reconstruction Finance Corporation and the replacement of its Board of Director by a single Administrator".<sup>1</sup> In France, there is the most interesting, and in some respects most important form of State supervision in the specialised public undertaking Audit Board, the title of which is "*the Commission de vérification des comptes des Entreprises Publiques de l'Etat à Caractère industriel et commercial de entreprises nationalisées, et des Sociétés mixtes à participation majoritaire de l'Etat*". The parliamentary body. The law of 1948 empowers the Commission "to examine the annual accounts of the enterprises and express opinions on the competence of the enterprise's commercial and financial management" and also "its opinion" on future prospects

<sup>1</sup> Rangoon Report p. 28.

in the General Report as distinct from the financial report.<sup>1</sup> High Tributes are paid to the quality of the work of this Commission which is "staffed by men of high intelligence, good administrative experience, and adequate prestige" as containing valuable analyses of the activities of the public enterprises and proposals for improved operations. In the U. K. the history of the setting up of the Select Committee<sup>2</sup> on Nationalised Industry (Reports and Accounts) is very interesting, as it could only be done after serious acrimony. The earliest report of the Select Committee on Nationalised industry of the U. K. appointed in 1951, recommended for setting up a "Committee of the House of Commons by Standing Order, to examine the Nationalised Industries, with power to send for persons, paper and records, power to set up sub-committees and to report from time to time". This recommendation gave rise to the acrimony. *The Times* observed on it that "If Parliament is going to put pressure on the relative independence of the industries, and on this their efficiency will to a very great extent depend—it cannot devise new instruments which are really the creatures of distrust . . . Parliament has all the machinery and powers it needs. Such a long range vigilance and wise forbearance will stimulate not only efficiency but also enterprise. Under the proposed arrangement both will wither".<sup>3</sup> The Trade Union Congress General Council too came to the conclusion that there was no real case for the setting up of a Select Committee to examine and report on the administration and activities of the Nationalised industries. The strong criticism that seem to have prevailed upon came from Mr. Herbert Morrison, who observed that the proposed Select Committee would tend to create among those running the nationalised industries "a rather red-tappish, unadventurous and conventionally civil frame of mind"<sup>4</sup> and this view was held stubbornly. Mr. Morrison was, therefore, in favour of periodic surveys through ad hoc Committee of Inquiry rather than having a Standing Committee of Parliament to look-over-the-shoulder of the publicly-owned industries. In spite

<sup>1</sup> Hanson A. H. : *Parliament and Public Ownership*, pp. 198-202.

<sup>2</sup> 2nd Report (1953).

<sup>3</sup> *The Times*, London, leading article Aug. 13, 1953.

<sup>4</sup> Morrison Herbert : *Government and Parliament* p. 280. -

of opposition, however, the arguments weighed in favour of acceptance of the proposal for a Standing Committee and it was set up in mid-July, 1955 in a qualified way and with a good deal of modification. The Terms of Reference were restricted so much as to have led the Select Committee to express through a Special Report its inability to do anything useful under the imposition. Thereupon a new Select Committee was set up in December 1956 with extended powers of inquiries. By the end of 1960, this Select Committee on Nationalised Industries<sup>1</sup> already reported on the North of Scotland Hydro-electricity Boards, the National Coal Board, the Air Corporations and the British Railways. The later reports of the Committee are more comprehensive and educative, though somewhat controversial than the earlier ones, sometimes touching the government policy. It is evident that the Reports cut a very wide ground and have been contributing much to shape the behaviour of the corporations as well as minister-corporation relationship.

In the U. K. there were also established ad hoc Committees of Inquiry. The Labour Government announced the policy of setting up ad hoc Bodies in preference to permanent standing committee<sup>2</sup> for septennial inquiry into broad questions of policy and organisation of particular publicly-owned industries. And before the setting up of the standing committee some ad hoc Committees worked, for example, the Beveridge Committee on Broadcasting, 1951, the Fleck Committee on National Coal Board, 1953, and the Herbert Committee on the British Electricity, 1954. The Labour Party in its pamphlet entitled "*Public Enterprise*", (1957) has desired for decennial enquiries instead of septennial, as in its opinion, more time is needed for seeing the result of the changes effected from an enquiry before a further enquiry should begin. In view of establishment of a Standing Committee now, the cause for periodic surveys has receded.

The demand for a Parliamentary Committee in India was made by Dr. Lankasundaram in the House of People on the 10th December, 1953, when he stated that "I suggest the creation

<sup>1</sup> Reports and Accounts.

<sup>2</sup> 478 H. C. Deb., Oct. 25, 1950 Cols. 2814-5.

of a Parliamentary Committee apart from the Public Accounts Committee and the Estimates Committee to sit all the year round, specifically charged with the task of looking into the affairs of these various categories of corporations, companies and institutions,"<sup>1</sup> and his view received support from another member who said, "we require an entirely different mechanism to supplement the investigations of the Public Accounts Committee"<sup>2</sup>. Dr. C. D. Deshmukh, the Finance Minister replied, "In the fulness of time there is nothing to stop us from setting up any body which... will be a sort of combination of the Estimates Committee and the Public Accounts Committee"<sup>3</sup>. The Government however vacillated much over the matter, and the time was not thought ripe for a standing committee till the recommendations of the Krishna Menon Committee has made an urge in that direction. The Menon Committee referring to the opinion of the late Speaker, Shri Mavlinkar, who opined in favour of establishment of a separate committee "to work under my directions" so that "they do not stray beyond the functions assigned to them; or cause day-to-day interference," has unequivocally recommended that "A Committee of Parliament should be established,"<sup>4</sup> and as a result of which the Estimates Committee and the Public Accounts Committee, "will cease to perform their present functions in regard to the working of the concern that come under the proposed committee."

### Krishna Menon Committee

It is gratifying to note that the Union Government nearly two years after the Menon Committee Report has come to a final decision to set up a Joint Committee of the two Houses of Parliament to examine the reports and accounts of the State undertakings in order to determine whether the affairs "are being managed in accordance with sound business principles and prudent commercial practices"<sup>5</sup>. The Committee will be set up after the General Election (1962) is over, as before that the Committee

<sup>1</sup> Debates cols. 1918-19.

<sup>2</sup> Ibid. cols. 1959-60.

<sup>3</sup> *Lok Sabha Debates* dated 11. 12. 53., col. 1981.

<sup>4</sup> Op. cit. paras 19 and 111.

<sup>5</sup> *The Statesman*, Calcutta dated 27. 8. 61.

cannot effectively function<sup>1</sup>. It is proposed that the committee will have on it 20 members of whom 15 will be from Lok Sabha and 5 from 'Rajya Sabha, being elected on the basis of proportional representation.

The scope of the proposed Committee as defined by the Cabinet sub-Committee, headed by Shri Guljarilal Nanda, shows that the committee will have jurisdiction over all statutory corporations except nationalised banks, and Government companies, the annual reports of which are placed before Parliament, but the terms of reference are bound to be narrow as matters pertaining to policy matters and day-to-day administration fall outside the purview of the Committee. The Committee cannot further interfere with the problems relating to wages and service conditions decided by agreement between the undertaking and their employees through Union or otherwise. This restricted scope is analogous to that of the earliest Select Committee (1955) in the U.K. in which some matters, such as, general policy matters, collective bargaining of wages conditions of employment settled by the machinery created under the Statutes and matters of day-to-day administration were omitted from the Terms of Reference and this feature was criticised by Mr. D. N. Chester as "the Committee's scope has been considerably reduced"<sup>2</sup>.

India needs two Parliamentary Committees, one for general administration and another for efficiency audit. It is no good pyramiding the hierarchy of control and with the setting up of these Committees, the Estimates Committee and the Public Accounts Committee should divest themselves of their functions in this sphere. But should the Standing Committee under the circumstances be taken to assume the role of a super-Board or a super-Executive body? Neither of the two, as it should function in an advisory capacity and the constructive

<sup>1</sup> In the U. K. the earliest Select Committee appointed in March '55 could not function, as a General Election took place immediately afterwards and a new one had to be set up in July, 1955.

<sup>2</sup> Article : *Select Committee on Nationalised Industries in Public Administration*, 1956 p. 95. See also Hanson A. H. : *Parliament and Public Ownership*, London 1961 p. 143.

suggestions offered by it are to help administration of the public undertakings in an effective manner. It should not be a 'fault-finding' body, neither should it develop any attitude of "looking-over-the-shoulder" of the Board. Whereas the public corporations should regard it not "as an enemy, or a critic, but as a confidant, and a protection against irresponsible pressure as well as a guardian of the public interest".<sup>1</sup>

The main functions of this Standing Committee which is to sit all the year round, inter-alia, may be enumerated thus :—

(i) To receive reports from all public corporations, and screen them for parliamentary discussion, as "it would be extremely valuable if these general reports before they come to Parliament could be screened so that Hon'ble Members could pick up the main issues and discuss them in Parliament"<sup>2</sup>. Admittedly, "the Annual Reports for Parliament 'should not, however, become a simplified tabloid, possibly abusing the need for brevity by omitting the less convenient facts. On the contrary, what is required is the proper selection of all the most important material, its presentation in the most skilful way to facilitate comprehension and to reveal its true significance and the elimination of material of only subsidiary importance"<sup>3</sup>. The consolidated statement of all public undertakings should be prepared by this Committee as it would be helpful for parliamentary debates, as the Estimates Committee holds the view that "in addition to the Annual Reports of the Public undertakings which are laid before Parliament individually, a separate comprehensive report should be presented to Parliament indicating the Government's appraisal of the working"<sup>4</sup>.

(ii) This Standing Committee is to act as liasion between the Members of the Parliament on the Party basis and the

<sup>1</sup> Robson W. A. *Op. cit.* 186 quoting from the Report from the Select. Com. on Nationalised Industry, HMSO HC 235/1952-53 para 15.

<sup>2</sup> *Report of the Public Accounts Committee (U. K.) 1949* p. 407 as referred to in H. C. Debates dt. 25. 10. 50 col. 2826.

<sup>3</sup> Raymond Nottlage : *"Reporting to Parliament on the Nationalised Industries in Public Administration* Vol. XXXV. Summer 1957 p. 154.

<sup>4</sup> 60th Report para See also 73rd Report para 25.

public corporations for eliciting and supplying the specific information about the corporations to meet the inquisitiveness of the Members.

(iii) To act in the matter of "audit of physical performance"<sup>1</sup> on the model of the French Cour des comptes to pass judgment "on the activities of the enterprise" and to indicate changes in structure and organisation for future prospects. This will be one of the important tasks to be performed by the Committee.

(iv) To act as agency of the Parliament, it will have assumed the character of a "watch-dog" Committee and should have the responsibility of keeping itself equipped with the up-to-date development about the public enterprises not at the instance of Members of Parliament but on its own volition, and should also act in complete cohesion with the Ministry but not as its subordinate. In its relationship to the corporation, the Ministry and Parliament, the Committee should bear in mind that "given reasonably stable economic conditions, honesty and competence on the part of industrial administrators, intelligence on the part of Ministries and reasonable restraint on the part of the legislatures...the question tends to resolve into one of distributing functions sensibly among the various administrative levels, and of providing for their mutual comprehension, rather than one of arbitrarily delimiting the formal authority which each shall possess"<sup>2</sup>, and it should never encroach on the domain of the administration of the corporation ; neither should it allow to be dominated by Members of Parliament or Ministries. A bold and healthy outlook of the Committee will definitely bestow beneficial result on the working of the Corporation.

As to the constitution of the Committee, it is sometimes advocated that it should have the privilege of having a man of experience and of the stature of the Comptroller and Auditor General of India, as his advice is also freely obtained by the Public Accounts Committee. This is reasonable. Moreover, the Standing Committee exclusively formed by the Members of

<sup>1</sup> See *Third Five-year Plan—A draft outline* : June, 1960 p. 61.

<sup>2</sup> Hanson A. H. (ed) *Public Enterprise*, p. 194.



Parliament may not have the requisite standard of experience, skill and aptness of a business acumen that is necessary to deal with matters of industrial and commercial nature. But at the same time, Parliamentary Committee forbids outsiders to be taken in for constitutional reasons. The correct way, for an effective and powerful Standing Committee is, therefore, to compose it by Members experienced in commercial and industrial fields, in the field of finance and accounts, with permission to have the advice of a panel of outside experts in evidence or through communication, who are purely to function in an advisory capacity. Political outlook should be shed as far as possible, as "a great deal will depend upon the wisdom, self-restraint and discretion of political leaders and also upon the understanding of the nature of problems, practical ability displayed and tradition built by the Directors of public corporations".<sup>1</sup>

### Audit Commission

The matter of audit of the public corporation has evoked much criticism and several modifications in the provisions of law in one form or the other have been made as a result. There was marked dissatisfaction over the exclusion of the Comptroller and Auditor General from the sphere of auditing and this led to the amendment of the Company law and Section 619 provides for the Comptroller and Auditor General's power (i) to direct the manner in which the company's account shall be audited by the Auditor and (ii) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf. He further has the right to comment upon or supplement the Audit report. This law has been appreciated by Shri. Asoke Chanda as he says that "By providing for the overriding Audit control of the Comptroller and Auditor General, the Companies Act, on the one hand, met the requirement of public accountability of the State enterprises and, on the other, retained for them the necessary degree of flexibility in operation and management"<sup>2</sup>. In the case of statutory corporations also the Comptroller and Auditor General enjoys enormous power. For example, in the

<sup>1</sup> Dr. Gyanchand. *Loc. cit.* p. 18.

<sup>2</sup> *Ibid.* p. 202.

case of D.V.C., "the accounts of the corporation shall be maintained and audited in such manner as may, in consultation with the Auditor General of India, be prescribed"<sup>1</sup>. The Rules provide that the accounts shall be audited by an officer appointed by the Comptroller and Auditor General of India, and under his direction and control<sup>2</sup>; in the case of the Air Corporations for any defect or irregularity of accounts, the Central Government on specific reference by the Auditors shall, in consultation with the Comptroller and Auditor General, pass such orders thereon as it thinks fit<sup>3</sup>; in the case of the I.F.C., one of the two Auditors is appointed by the Central Government in consultation with the Comptroller and Auditor General of India, and the Central Government may, in consultation with the Comptroller and Auditor General at any time, issue directions to the Auditors requiring them to report to it upon the measures taken by the corporation to protect the shareholders and creditors. The Comptroller and Auditor General also can, of his own motion, undertake audit of the corporation<sup>4</sup>. It is, therefore, evident that, apart from the D.V.C. where the Comptroller and Auditor General is indirectly brought in, the Comptroller and Auditor General also enjoys an overriding control over audits of the other corporations. The L.I.C. enjoys the largest freedom in having private audit and the Comptroller and Auditor General's power is practically non-existent.

As public money is involved in a public corporation, a public scrutiny of its accounts is essential to see whether the expenditure has been made in conformity with the laid-down provisions of law and if in the exigency of circumstances any deviation has taken place, whether it has been made within a reasonable limit. "An audit conducted merely for certification of the balance sheets and profit and loss accounts might not, in these circumstances, safeguard the interests of tax-payers"<sup>5</sup>. The crux of the problem is, therefore, to determine the nature of audit that is to

<sup>1</sup> Sec. 47 of the D. V. C. Act.

<sup>2</sup> Rule 28 of the D. V. C. Rules, 1948.

<sup>3</sup> Rule 10(2) of the I. A. C. Rules.

<sup>4</sup> Sec. 34 of the I. F. C. Act.

<sup>5</sup> Asoke Chanda : *Op. cit.* p. 202.

be carried out in case of a public corporation, a suitable body to carry it out and the manner in which the Auditor should act. It is an agreed principle that in order to ensure flexibility of operation, the audit "ought to be properly commercial,"<sup>1</sup> and if the Auditor General is to carry out the audit he should have an army of men specialised in commercial knowledge and experience and with an outlook of business audit. In Government audit generally the emphasis is mostly on legalistic and procedural matters and this rigidity of audit tends to subject a public corporation "to a serious limitation of administrative discretion and flexibility". The unfortunate conflict between the General Accounting Office and the T.V.A. in the U.S.A. in 1935, on some expenditure that was characterised as "a reckless waste of public funds" and "the most astounding state of affairs that has occurred in the handling of the public money of the United States,"<sup>2</sup> however, was ultimately settled by Joint Congressional Committee set up in 1938 by a recommendation that the G.A.O. audit "should be substituted by a commercial audit by commercial auditors" and since then the commercial audit is being carried out in the T.V.A. by a firm of certified public accountants side by side with Government audit. Though it appears to be a duplication of audit job, this has the effect on the private auditors against their becoming a "rubber-stamp" of management. It should be borne in mind as Mr. Kohler, T.V.A's Controller, observed that "Administrative catharsis is not automatically effected by disclosures of peccadilloes but the study of refinement of methods which will reduce their occurrence"<sup>3</sup>. This is of universal application.

In India, though there is diverse opinion on the advisability of audit performed by the Auditor General, the preponderance of the view seems, however, on the side of an independent audit of the corporation accounts with a power granted to the Comptroller and Auditor General to conduct a supplementary audit at his discretion, which would also have an effect on the proper performance of audit by private auditors. Pure Government audit has been discarded for reason of rigidity and

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<sup>1</sup> Gorwala A. D. : Op. cit. p. 25.

<sup>2</sup> Pritchett : Op. cit. p. 252.

<sup>3</sup> Pritchett : Op. cit. p. 259.

too much prodding at "trifling" expenses. It is pertinent to consider whether the audit should be given over to a specialised independent body as the "*Commission de verification des comptes*" in France, representing "a distinctive French contribution to the problem of combining business autonomy with public control"<sup>1</sup>, which, apart from examining the accuracy of the accounts of the public enterprises "passes judgments on the activities and achievements", and this is a line of efficiency audit, round which a great deal of problem has arisen in all countries including the U.K. and the U.S.A. The necessity of such efficiency audit of public undertakings in India has been hinted at in the Third Five-year Plan, as it states, "there is need for systematic audit of physical performance in all public enterprises both in the construction stage and subsequently"<sup>2</sup>.

There is hardly any quarrel over the matter of efficiency audit and its efficacy, but the controversy hinges on the appropriate agency through which that can be effectively carried out, and what should be its relations to Parliament. The proposal has been made in some quarters to create either ad hoc Committees or a permanent body to carry it out<sup>3</sup>, and this requires to be examined. In the U.K., it was made clear by the Comptroller and Auditor General that if Parliament wanted to have a periodic examination of the efficiency of any of the industries he did not believe that this could be done "merely by an examination of their accounts", and "we would certainly not claim that we could undertake an efficiency audit" and "what we cannot do we should not pretend to do"<sup>4</sup>. Considering the inadequacy of expert staff as well as rigidity of Government audit, Prof. Robson feels the necessity of creating an Audit Commission for "enquiring into the operating efficiency of a nationalised industry"<sup>5</sup>. For the Indian public corporations, Shri Gorwala recommended "to have one body" throughout the country, i.e. "a centralised commercial audit for all State

<sup>1</sup> Hanson A. H. Ed. : *Public Enterprise* p. 210.

<sup>2</sup> *Third Five-year Plan : A Draft Outline* p. 61.

<sup>3</sup> I. I. P. A. Seminar Report p. 16.

<sup>4</sup> *Evidence of Sir Frank N. Tribe* reproduced in the *Report of Select Committee on Nationalised Industries* dt. 23. 7. 53., Ref. I. I. P. A. Seminar op. cit. p. 16.

<sup>5</sup> Op. cit. p. 323.

enterprises under the Auditor General"<sup>1</sup>. This suggestion aims at giving the audit to be performed by the Auditor General though with a commercial outlook. But the staff of the Auditor General are generally trained to follow the rigidity of rules, who are often inclined to seize upon trifling matters rather than a broad approach to the work, which is so necessary in a public enterprise. The Auditor General's staff should, therefore, be adequately trained to take up commercial audit, and this would require an additional team of staff. It appears, therefore, appropriate that the commercial audit should be performed by private auditors under an overriding control of the Auditor General who is to receive the audit reports in detail and in the circumstances thought fit, he would be in a position to ask for clarification and explanation over some points of audit work. If he finds it necessary, on his own right, he may also enter into periodic audits of the enterprises. This would be helpful in ensuring commercial audit for public enterprise, and, at the same time, an effective check on the private auditors. A Commercial Audit Committee should be there under the Auditor General.

Shri Gorwala, however, does not say anything about efficiency audit. In this connection, the Swedish practice may be profitably recalled where efficiency audits are made by the Auditors of the Parliament, by the Government Auditing Body and by the Government Organisation Office in collaboration with the special Auditors-in-Chief of some business operating administrations, and the objects of efficiency audit are "to ascertain whether the enterprises are conducting their work well, to call attention to merits and shortcomings and to make suggestions for improvements". These auditing bodies "inquire into such matters as the character, quantity and quality of service, price-policy, efficiency of administration, recruiting and investment policies", and the auditing bodies are composed of "men of wide experience in different fields and have assistance of experts, in accounting, management, engineering, finance and law"<sup>2</sup>. A permanent Audit Commission of independent status distinct from the commercial audit Committee under the

<sup>1</sup> Op. cit. p. 25.

<sup>2</sup> Hanson A. H. (ed): Ibid. p. 278.

Comptroller and Auditor General, as suggested above, should be created under Parliamentary sanction, and the Commission should be composed of men of qualification and experience in the different fields, on the Swedish model for carrying out efficiency audit for each public corporation at least once in three years. The Comptroller and Auditor General should act here in an advisory capacity. The report of this Commission should be made to the Standing Committee on Public undertakings which in turn should place it before Parliament through the Minister of Public Enterprises, and this report is expected to be a valuable document for Parliamentary discussion and debates on public enterprises out of which many innovations would emerge and be brought into practice. There is some force in the argument that "a nationalised undertaking is so big a thing that no efficiency audit from outside could hope in the time at its disposal to master the intricacies from first-hand knowledge and observation".<sup>1</sup> But the problem is not so intractable as it appears to be. The inclusion of internal Chief Auditors of some business units will improve the situation. The character and rôle of this proposed Audit Commission will be different from that of the French Body or the High Control Board of Turkey, as the latter bodies have permanent supervision and control whereas the proposed Audit Commission will be a permanent body for the purposes of periodic efficiency audits which are distinct and different from the annual audits.

### **Ad hoc Committees**

Apart from the above two bodies, the Standing Committee and Audit Commission, Parliament should find its way to set up ad hoc committees on specific public corporation issues either for general purposes or for a specific purpose on public demand, like the D. V. C. Enquiry Committee, the I. F. C. Enquiry Committee, LIC Enquiry Commission and Enquiry Board, etc. These Committees would act on terms of reference. But the prerogative of these Committees should not be extended to the "fishing" into details. The mistakes committed by an official in course of discharge of duty in good faith should not also be commented upon, as in the UK, the Committee of Inquiry into

the Electricity Supply Industry in its Report (1956) observed that "It does not make for efficiency if every officer in every action has not only to do the best that he can but also to be prepared to defend in public his every step. No business can prosper under such conditions".<sup>1</sup> The scope of enquiry should, therefore, be based on a broad standpoint without minute details, as otherwise the Committee would tend to become "a fourth arm of the Government" in the matter of controlling public corporations.

The Reports of these three bodies will provide for ample parliamentary control and accountability of the public corporations. But debates must not take place too often as in such conditions the debates not only lose their significance but they would tend to create a sense of apprehension and pusillanimity in the Board officials. The Speaker of the House has a great role to play as a balancing personage against discursive debates. It is to be borne in mind that the crux of the problem is not so much to enforce parliamentary control and accountability as to ensure corporate freedom and to inject a dynamic force into the organisation in which, indeed, lies the excellence of parliamentary vigilance.

<sup>1</sup> *Official Report* Vol. 530. col. 279.

## CHAPTER VII

### FINANCING

Of the many contrasting features of a public corporation with those of other institutions, the realm of finance exhibits the most contrasting characteristic.<sup>1</sup> Financing of a public corporation poses a problem mainly because of the principles on which the corporation is run. One of the leading principles of public corporation is to have self-contained finance. It has no equity capital as in a company as well as its finance is not an appropriation from the general revenues as in the case of a departmental enterprise. Problems of finance, therefore, need to be solved on a pragmatic consideration of tapping effective sources on reasonable terms. In under-developed country the matter is all the more complicated due to its peculiar internal economic condition, and in the circumstances where the institution of public corporation is the result of ventures into new fields of economy having manifold problems, finance has to be found either from the Treasury directly or from development banks and other financial institutions internally and also from external sources.

#### Equity Capital

Equity capital that constitutes the main financial resources in a Joint Stock Company has ordinarily no place in a public corporation. The equity capital being the risk finance has no doubt advantages in so far as it does not saddle the undertaking with an annual overhead cost (i.e. fixed interest charges) which is the feature with the loan capital. In India, no public corporation except the Industrial Finance Corporation and Central Warehousing Corporation has provisions for the issue of share capital. Of course, Section 4(3) of the Industrial Finance



Corporation Act restricts such shareholding to specific types of shareholders and also restricts holdings of each to a specified amount. But this sort of provision of share capital is a deviation from the principle of public corporation which should have no equity capital. In this particular aspect, the I. F. C. is reduced to the status of a Joint Stock Company and especially so, as there is a guarantee of return on such equity capital.

In India, the Estimates Committee has recommended for allowing private capital to the extent of 25% of the total capital in the company form of public enterprise,<sup>1</sup> and this issue was considered by an Official Study Group headed by the Secretary of the Company Law Department, Shri D. L. Majumdar, and this Committee has also agreed with the Estimates Committee for throwing open shares of 25% of capital for private subscription. As an experimentation, the matter has been advised for being initially confined to Sindri fertilisers, Hindustan Machine Tools and a few state Road Transport undertakings. The Study Group has also expressed opinion in favour of subscription by individuals and co-operative societies but a ceiling of Rs. 2,500/- holding has been recommended for an individual as well as for a co-operative society. Such participation should not be allowed in defence industries or undertakings functioning under security regulations. The Study Group seems to be optimistic and has complacently referred to the issue of shares by the state undertakings in West Germany, in pursuance of a policy of "privatisation" of shares of state-owned undertakings, which were sold at a high premium. Such shares, they have recommended, are to be borne on the Stock Exchange list, but the matter of transfer will be within the discretion of the Board. The Krishna Menon Committee is not very specific on this issue but does not abhor it<sup>2</sup>.

Assurance of immediate field on investment, prospects of future yield and capital appreciation are the factors influencing public response to subscribe to the issues. But a Government company should maintain distinction from a private company to keep its finance independent and free from obligation of

<sup>1</sup> 16th Report (1954-55) para 6.

<sup>2</sup> Op. cit., paras 97 and 99.

distributing' award. The main object of inviting private capital is to supplement Government resources. But the problems involved in this will possibly outweigh the advantage, mainly for two reasons, firstly, once public response is sufficiently demonstrative, the possible tendency is likely to grow for the Government to get in larger capital with, of course, some provision for checks on concentration of holdings and transfer of shares, but the infiltration of outside influence can hardly be avoided by the under-current of which the Board's personality is likely to be washed away. Secondly, the public having their money at stake, without power of exercising their rights over the management, are likely to seize upon minor shortcomings or lapses of the Board for damaging criticisms, and in such circumstances, the Board's freedom of action is greatly restrained. To avoid all these undesirable developments the correct way would be not to allow private capital participation, and the public undertaking should raise loan finance through the Central Finance Institution, suggested below, by offering incentive rate of interest to mop up the public savings for public purposes. "It is in the every nature of the nationalised industry", observed the Radcliffe Committee, "that it cannot offer share of the ownership of the business to private investors and that the benefits of the success and development of the business accrue not to private shareholders but to the nation. It is, therefore, appropriate that these industries should raise such new capital as they require on fixed interest obligation".<sup>1</sup> A modified version of equity issues was proposed by Prof. E. V. Morgan before the Committee, the dividend on which would be linked not "to profits but to sales, subject to a guaranteed minimum". But this proposal did not, however, find favour<sup>2</sup> because return in the shape of dividend militates against the accepted doctrines of public corporations in Great Britain.

The only corporations that have equity shares, not held by private individuals, but by institutions, are the Industrial Finance Corporation and the Central Warehousing Corporation both treading on new lines of activities. But equity shares are

<sup>1</sup> *Report of the Committee on Working of the Monetary System*, H. M. S. O. Aug. 1959 para 593.

<sup>2</sup> *Ibid.* para 593.

absent in the corporations established for the purpose of taking over private institutions e.g. L.I.C., I.A.C. and A.I.I. The reason is clear that in the case of a corporation set up for taking over an established concern no question of equity capital arises as the existing shareholders are expropriated and the State steps in to shoulder the burden of carrying on the industry. Truly, the principle of public corporation forbids equity holding.

### **Treasury to Supply Initial Finance**

When the issue of equity shares is discarded, what are the other alternative sources of finance for the public sector? Certainly, the state should assume larger responsibilities to provide finance to a public corporation to help it develop until it can stand on its own financial feet. "The first requirement, therefore", observes Mr. Hanson, "is that the enterprise should be given the opportunity to establish itself even at the expense, if necessary, of considerable financial losses"<sup>1</sup> and the Government has the prime responsibility in this regard. The Treasury is certainly to provide finance to a public corporation but there must be provision of payment of interest and repayment of capital when the corporation is able to earn surpluses. The advantages of the Treasury finance over that of borrowed funds through the issue of bonds and securities lie in that the corporation gets during the initial period of its working relief from the interest burden either by its postponement to a future date when the corporation is in a position to pay or by its being written off if the enterprise does not prove a success. The initial losses of a public corporation are certainly a burden on the Treasury which is, however, to benefit itself from the yield in future. But in an under-developed country, a great caution is to be exercised not to unduly burden the Treasury by injudicious extension of public enterprises, the potentiality of which is not clearly foreseen except from the consideration of over-riding public interest. The additional burden of the Treasury, in whatever form it is, is to be met out of budgetary surpluses, if any, or out of borrowing from other sources, internal or external. Whereas the State has the foremost responsibility of providing finance to a public corporation to establish itself, it should,

<sup>1</sup> Op. cit. p. 426.

however, restrict its financial assistance to only initial capital and provide subsequent capital in times of serious need, if and when the corporation is incapable of raising funds on its own strength or when it is expedient as a policy to extend further financial assistance to it in the national interest. In India, all public corporations are empowered to borrow funds.<sup>1</sup> Statutory obligations have been imposed on some corporations to take prior consent of the Central Government to borrow funds, e.g., Air Corporations, D.V.C. But this prior approval is not specifically provided for in some Acts, as in the case of the LIC. In principle, however, a public corporation should obtain the prior approval of the Central Government to raise loans and this approval by the appropriate Minister is also in keeping with the statutory practice of the public corporations in Great Britain<sup>2</sup>. This is especially emphasized when bonds and debentures of the public corporation enjoy the statutory guarantee of the Government, as for example, section 21 (2) of Industrial Finance Corporation Act, 1948, provides that "Bonds and debentures of the Corporation shall be guaranteed by the Central Government as to repayment of principal and the payment of interest." This aspect is not, however, specifically provided in the statutes of any other public corporations. It is, however, an implied fact that a public corporation enjoys the protection of the Government and any of its dealings is to receive protection and approval of the Government unless it is grossly against any provision of law or in violation of policy directives specifically issued by the Minister. This provision of guarantee in a public corporation has a two-fold advantage ; firstly, this relieves the Treasury of an extra financial burden of providing working capital, and, secondly, the additional financial obligation and recurring interest charge involved in the loans impel it to an efficient conduct of the enterprise to earn a surplus. In India, the resources of the State are too limited to provide all necessary capital to public corporations, and hence resort to public borrowing is the only alternative, especially when equity capital is to be shunned. The

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<sup>1</sup> Sec. 42 of D.V.C. Act, 1948 ; Sec. 6(2) (f) of L.I.C. Act, 1956, Sec. 10(3) (a) of Air Corporations Act, 1953 ; Sec. 21 of I.F.C. Act 1948 ; Sec. 33(xvi) of State Bank of India Act, 1955 ; etc.

<sup>2</sup> Robson W. A. : *Problems of Nationalised Industry* p. 51.

Treasury guarantee on the bonds of public corporations naturally makes them more marketable at a less burdensome rate of interest. The investing public in India are more inclined to invest in the Government or quasi-Government issues and it is in the public interest that the public corporations should resort largely to borrowings from the investing public through the issue of bonds. But in India, although the Acts of the Public Corporations provide for borrowing powers they remain so far unexercised except by the I.F.C., which perhaps had to resort to borrowing as a matter of expediency to make funds available to the private industries. So long as the public corporations cannot earn a surplus, the cost of servicing the loans should be the responsibility of the Government and this cost is to be reimbursed by the corporations as soon as they are able to do so.

### **Borrowing Powers of Boards**

It is a pertinent point to determine about the flexibility of the borrowing powers of a public corporation. Should a corporation enjoy powers of borrowings to an unlimited extent? This is a very delicate problem, especially in view of the corporate freedom granted to a public corporation. Borrowing by a public corporation may affect the money market and credit control policies of the Government. No public corporation can exercise its financial powers which are incompatible with the State monetary policy. The instances in point of the Tennessee Valley Authority in the U. S. A. are illuminating. It was provided that the Authority was to be entirely financed out of the Congressional appropriations "in the same way as the ordinary activities of the Government are financed" from an apprehension that if the T. V. A. were given borrowing powers it would escape the Congressional control over its activities, and "Congress was extremely sensitive on the question of allowing the T. V. A. excessive latitude of operation and expansion"<sup>1</sup>. A limited local-raising power was, however, extended in 1935, and in 1939 the Authority was given the right to raise the exact amounts required for the relevant contracts "with the approval of the Secretary". Thus, the Congress has an overriding power over the financial

<sup>1</sup> Herman Finer : *The T.V.A.—Lesson for International Application* p. 182.

matters of the T.V.A. How far is this acceptable in the Indian condition is an important point to consider. In the case of the D.V.C., the Act provides that all expenditure incurred by the Central Government for and in connection with the establishment of the Corporation up to the date of its establishment shall be treated as the capital provided by the Central Government to the Corporation and such capital "shall be adjusted between the participating Governments" in accordance with the provisions of the Act<sup>1</sup>. The law provides for allocation of capital expenditure between the three main objects, namely, irrigation, power and flood control, on the basis of the laid-down formula<sup>2</sup>. "In practice, however, the Centre finds all the money not only to cover its own share of capital expenditure, but also the shares of West Bengal and Bihar—the amounts so advanced being debited against the two State Governments as loans from the Centre"<sup>3</sup>. There is also provision of payment of interest on capital<sup>4</sup>. This method of indirect finance may give rise to difficulties. The State Governments with financial stakes may not sometimes see eye to eye with the centre's financing policy and may also resent the Centre's control over financial matters of the corporation. The only argument in favour of such indirect finance lies in that the project sponsored by the Central Government should be initially financed by the Centre with intent of throwing off the financial burden on the States when the project will fructify and can show positive results<sup>5</sup>. But in order to remedy the Centre's possible upper-handedness, the proper method would be to make budgetary grants to the Board by all the three participating Governments and to empower the Board to borrow the requisite additional finance. In the initial stages of construction and development of the D.V.C., it is not desirable that it should be put to undue financial strain due to inadequate grants of the Treasury or restrictions upon its borrowing powers. This method would also make the participating Governments conscious of their financial responsibility and induce them to take more interest in the

<sup>1</sup> Sec. 27 of the D.V.C. Act.

<sup>2</sup> Sec. 33 of the D.V.C. Act.

<sup>3</sup> Dr. Sudhir Sen : *The Economics of Public Corporations in Capital*, Annual Number, 1951, p. 73.

<sup>4</sup> Sec. 38 of the D.V.C. Act, 1948.

<sup>5</sup> Dr. Sudhir Sen Loc. cit., p. 73.

affairs of the projects in the mutual interests. The statutory provision of interest payment seems to be a very oppressive burden on the D.V.C., especially when the whole benefit would accrue to the participating Governments. The Board, in fact, enjoys a very subordinate position in financial matters which is all the more pronounced by the fact that the Financial Adviser, a statutory official, appointed by the Central Government, enjoys a status independent of the Board and any difference of opinion between the Financial Adviser and the Board is to be referred to the Central Government. The Government is complacent over such control over financial affairs, as Dr. C.D. Deshmukh observed, "one precaution that is invariably taken is that the Financial Representative, at a high level—either as a Joint Secretary or Secretary, is attached to that concern as a Director. . . although it is not said that everything shall be done with his concurrence, in practice that result is bound to follow. Because if he is overruled, well, then he can report the matter to the Ministry of Finance, and the Ministry of Finance can then take up the matter with the Corporation and move the Government to make the necessary changes which will ensure that financial advice is taken"<sup>1</sup>. But it should be borne in mind that if the financial policy of the Board is subordinated to the Treasury control, it would militate against the basic concept of corporate freedom of a public corporation and tend to reduce the corporation to a departmental agency. However, it would be a mistake to allow unlimited freedom to the Corporation in financial matters and the striking of a balance is necessary.

### Agencies of Capital Supply

An enterprise requires initial capital for construction and working capital for operation. The former calls for long-term finance and the latter for medium or short-period credits. Long-term finance may be obtained either from the Treasury grants or various financial institutions. Commercial banks usually do not offer long-term credits due to two main reasons, firstly, due to obligation of maintaining large liquidity-ratio, and secondly, to maintain an equilibrium between deposits and investments. Therefore, bank loans pertain more to cash-credit system or

<sup>1</sup> *Lok Sabha Debates* dated 10. 12. 53 col. 1922.

short-term credits than long-term loans. Financial institutions, such as, Industrial Finance Corporation, Industrial Credit and Investment Corporation of India, Refinance Corporation and State Financial Corporations, have been set up to meet the demand for long-term finance for industries in different categories in the private sector. Whereas State Financial Corporations have been set up in different States for advancing money to small-scale industries, the I.F.C. and the I.C.I.C.I. are specifically established for meeting the needs of large-scale industries and Refinance Corporation is an agency to facilitate rediscounting of loans from Banks, upto a specified ceiling. The I.F.C. and the I.C.I.C.I. provide both long-term and short-term loans to the private sector. There seems to be multiplication of financial institutions to help thrive of the private sector and this often tends to lead to competition, and the institution with larger resources is able to push back the others, as it is complained. Although the I.F.C. is statutorily authorised to borrow from abroad to give loans to industry, "the efforts to do so are reported to have failed since the World Bank is assisting its rival, the I.C.I.C.I.<sup>1</sup>. The I.C.I.C.I. is here characterized as the rival of the I.F.C. but it is an uncharitable remark as though the two institutions are competing to get the clientele. Far from it. The history of the establishment of the ICICI can well impart an idea about its activities and patronage of the World Bank in achieving its objectives. The I.C.I.C.I. was sponsored by the Government of India, the Foreign Operation Administration of the U.S. Government and the International Bank for Reconstruction and Development "for the purpose of encouraging the growth of private industry". The International Bank for Reconstruction and Development has made available to I.C.I.C.I. an initial line of credit of US \$10 m. in foreign currencies. The repayment of this credit is guaranteed by the Government of India. There is, however, a harmonious effort of these financial institutions in the development plans of the country. Further, to avoid overlapping of functions, a clear demarcation of functions between IFC and the State Financial Corporations has been felt necessary and in a Conference of the representatives of the State Financial Corporations, it was agreed that applicants for loans upto



(1) Rs. 10 lakhs or (2) 10 per cent of the paid-up capital of the State Financial Corporation of the State in which they are situated if that was lower than Rs. 10 lakhs, should be advised to apply to the State Financial Corporation concerned for financial assistance. It is, therefore, clear that caution is exercised to maintain the distinctive areas of operation by each of these financial institutions helping the private sector. The National Industrial Development Corporation set up in October, 1954, to help "development rather than finance"<sup>1</sup>, has not also assisted the public sector. The Government have decided to use the corporation as an agency for the grant of loans to an industry particularly, jute and cotton textile, and the scheme has now extended to units manufacturing machine tools. The Corporation, as it appears, is, therefore, more related to private enterprises than public undertakings. India, therefore, lacks in any central or regional financial institutions for the public sector.

### National Finance Corporation

This practice of borrowing by each corporation separately and individually to meet its short-term or long-term financial needs at any point of time has the danger of their financial programme being subordinated to the market mechanism and behaviour of the investors. Therefore, there should be a programme of raising finance for the public sector to avoid disequilibrium and instability of the market. At present different public enterprises are contacting foreign assistance separately and in the present circumstances of foreign exchange shortage this method of individual foreign debts tends to develop an unco-ordinated operation in the domain of external debts. A well-conceived co-ordinated policy of internal and external finance is the necessity, and this can be achieved if the matter of financing were given over to a central body that would have the liaison between the investors and the public corporations in constant association with the Treasury but not subordinate to the latter. A National Finance Corporation should be created in India in order to perform the various functions of financing the public enterprise. This institution will act as a development

<sup>1</sup> William Diamond : *Development Banks*, I.B.R.D. 1957 p. 110.

bank in the sense that this corporation will be empowered to accept deposits of different kinds from the public and Investment institutions on a reasonable rate of interest, to raise funds by borrowing from the money market on bonds and debentures with the Treasury guarantee and to contact external assistance with the approval of the Central Government. The securities of this Corporation should, of course, be giltedged to make them readily marketable, and these securities will bear the stamp of guarantee of the Government for repayment, so that market mechanism itself would not act adversely. The Reserve Bank must be liberal in providing finance to this Corporation to help it to carry on its functions.

No development bank, of course, should go beyond the bounds of the Government's policy and the provision of approval of the Government. This Corporation should certainly enjoy an independent status although its relationship with the Government must necessarily be very close. Initial finance to start the Corporation will be no doubt provided by the Treasury and the Corporation is expected to pay its way by its earning of interest from loans provided to the public enterprises, and any deficiency at the initial periods is to be made good by the Treasury. Government capital will no doubt be an important component of its finance. The Government can hardly stand aside and permit complete independence to the Corporation, but nevertheless the control must not be more than necessary as in the case of any other public corporation, and its autonomy should never be pushed aside. "It is essential that Government guarantees do not serve as a cloak for Treasury control of public corporation finance".<sup>1</sup>

The national finance corporation as suggested above has necessarily to maintain close relationship with the Government organs such as the Reserve Bank of India, Ministry of Finance, and the Planning Commission so that there may be coordinated schemes of finance in keeping with the accepted programmes of each year of the Five Year Plans. By this, the burden of Reserve Bank will greatly lighten and it will also act as an adviser to the financial programme of the finance corporation.

<sup>1</sup> Gordon L : Op. cit. p. 340.

The Planning Commission will also have a better information about the public corporation's financial programmes and achievements through this central organisation to judge the effectuation of the national plan.

The relationship of this financial corporation with the borrowing corporation is really important. The procedure of providing loans on which the relationship depends should first be determined. Now, should each public corporation prepare a budget at the beginning of the accounting year and submit it before the Corporation for scrutiny so far as requisite finance is concerned ? It is seen that the public corporations have the statutory obligation of preparing and submitting their budgets to the Government. It is necessary for the Financial Corporation to have the prior knowledge about the amount of assistance that would be required to be made to the public corporations in a particular year which will enable it to decide on its borrowing policy. The conflict is likely to arise if certain financial claims are rejected by the Finance Corporation and it is very likely that in order to feed all the corporations evenly and to maintain the priorities of the projects, minor adjustments have to be made, in the event of which some corporations may not obtain their full financial demands in a particular year. But this matter may be compensated in the next year. The Finance Corporation must have an Advisory Body, manned by experts, to scrutinize and advise on the legitimacy of the financial assistance sought by a corporation. Whether this aspect of scrutiny will be tantamount to interference with the corporations' autonomy is a ticklish problem. Indeed, if the concept of autonomy is extended too far as not to allow the slightest interference in an important matter like finance in the public interest, the situation turns out unbearable. The T. V. A. provides an example, which though empowered to raise loans has not been given unlimited freedom and is allowed only to borrow specific amounts for special project subject to the approval of the Congress. The Acts of the Public corporations have to be amended in the light of the functions of the National Finance Corporation inasmuch as each corporation has not to seek approval of the Central Government for each loan as this function would then vest in the Finance Corporation which would

determine the borrowing policy on the basis of the admitted budgets of the public corporations. This would relieve also the Government to 'accord approval in every individual case. Flexibility is a great boon to such financial corporation and there should be a reasonable flexibility in operation in both ways of borrowing and lending.

In India the need of a National Finance Corporation can hardly be over-emphasized to avoid reckless application of resources in a haphazard manner and consequential economic disaster. The Corporation, clothed with powers from the Government, will have an additional advantage to negotiate foreign assistance in an orderly manner which will assure judicious use of foreign exchange. "The participation of foreign capital in whatever form is important in countries which are short of foreign exchange".<sup>1</sup> India has now slender foreign exchange reserves and this calls for a very prudent method of dealing with external assistance, and the central organisation is expected to act in this matter efficiently and effectively. Though the exchange risk of a loan is ultimately to be assumed by the Government, the borrowing should be a function of the Central Finance organisation, and in this respect the advantage enjoyed by IFC in the provision that "the Corporation of this kind will be enjoying the patronage of the Government of India and might be in a better position to make arrangement for the supply of the necessary foreign exchange for this purpose,"<sup>2</sup> should also be extended to the suggested National Finance Corporation. A public corporation can, therefore, rest in comfort with the submission of its financial demands on this central finance corporation and all formalities and botherations are then the concern of the latter. Here a question may arise whether the National Finance Corporation should nominate any representative on the Board of the public corporations, to which money has been advanced. The answer is an emphatic "No", as in principle, a public corporation is run by an independent Board and a finance corporation should never participate in operational responsibility or in the overall policy of the Board. At the same time, however, the relationship between the finance corporation

<sup>1</sup> Diamond W. Op. cit. p. 65.

<sup>2</sup> *Constituent Assembly Debates* dated 9. 2. 48 p. 466.

and a public corporation is not merely that of a lender and a borrower but something more. The right line between independence and responsibility seems therefore, to lie in the satisfactory working relationship between the financial corporation and the individual public corporation and it is ensured by free exchange of views and information and free discussion of the problems between the Boards of the two corporations.

### **Interest-rate : A complicated issue**

The interest rate is another ticklish problem with a public corporation. What should be the rate of interest to be charged by the finance institution is a pertinent question. Where the public corporation borrows from the Treasury and if the interest rate is lower than the market rate of interest, there is an element of subsidy. This not only does not stand for the efficiency of a public corporation but would cause resentment in a mixed economy and accusation of discrimination would follow. The problem, therefore, lies in deciding between the powers of borrowing from the market by the corporations independently and providing finance by a central agency to the corporations. If the interest rates charged by the agency are higher than those at which market loans can be obtained by the corporation itself, then there is no point in creating the central finance institution. At the same time, if the investing public or institutions find it more profitable to lend directly to the corporation they will have no inclination to invest with the central finance corporation. To avoid this anomaly there must be no provision for giving choice to the corporations individually to resort either to the practice of direct borrowing or approaching the proposed financial institution. The correct process is to have a co-ordinated policy of financing the public corporations through the national finance corporation and all borrowings are to be made by it from different sources including the Government. There is certainly an advantage in having a stable rate of interest which makes it possible to carry out effectively the investment programmes without any apprehension of upswings or downswings of the money market. But the idea of stable interest-rate is inconsistent with the behaviour of investment market. Interest rates in the money market are certainly influenced by the capital investment programmes and "it would be perverse to hold

interest-rates stable in the face of a major change in the attraction of capital development ; that would be to invite a cumulatively excessive pressure or deficiency of demand and a wasteful allocation of the community's resources".<sup>1</sup> Normally, however, there should be as little disturbance as possible with the market rate of interest and the Government has a prime responsibility to adopt such monetary measures as to avoid causing any gag or glut in the money market to throw the investment programme out of gear. The interest rates to be charged should not be more than  $1\frac{1}{2}$  to 2 per cent higher than the borrowing rates, with a privilege of getting a remission on payment by the due date as in the case of N.I.D.C. which charges interest at  $7\frac{1}{2}$  per cent per annum but it may charge interest at 5 per cent if the instalments of principal and interest are paid by the due dates. In IFC also the usual rate of interest is  $7\frac{1}{2}$  per cent with a rebate however of  $\frac{1}{2}\%$  for punctual payments.<sup>2</sup>

In Great Britain the financing of the nationalised industries until 1956 was taken up by the Exchequer and although there were provisions in the nationalisation Acts empowering the Corporations to borrow, it was seldom practised, for example, the National Coal Board resorted only once in its history to borrow short-term loans from the Banks. Borrowings were made from the Exchequer and in 1956 the Finance Act specifically provided for the nationalised electricity, gas and transport industries to borrow from the Exchequer instead of raising funds by the issue of stocks. This is perhaps due to the sad experience of the Bank of England in 1955 of increasing difficulty in selling the Nationalised Industries' stocks to the public, and on which it was alarmed that the Issue Department might become "cluttered up with a lot of unsaleable stock". The Exchequer has, therefore, assumed control over the whole operation with responsibility of meeting the capital requirements of the nationalised industries. The only latitude was granted to BOAC to borrow from IBRD or the Export Import Bank on account of purchases of aircrafts in the U.S.A. In India where the public sector is of recent

<sup>1</sup> *Radcliffe Committee Report* Op. cit. para 495.

<sup>2</sup> The IFC has raised rate of interest from 7% p.a. to  $7\frac{1}{2}\%$  p.a. in June 1962.

origin, the public are still to be instilled into the faith of efficiency and productive results of the projects. But there is little doubt that the public have unstinted faith in the Government and the money market has all along been responsive to loans floated by the Government and this is evident by the over-subscription of the different kinds of Bonds issued by the Government including the latest issue of Prize Bonds that were sold at the rate of Rs. 1 crore per diem. The monetary policy rests with the Government and this can be effectively put into practice when the raising of loans is directly done by the Government or done by any other central institution with the approval of the Treasury in order to achieve a co-ordinated scheme of borrowing. If the public corporations are given the powers of borrowings directly from the market, "they must time them at their own discretion and many a difficulty might crop up and the money market be disturbed". In this context, "we should prefer", observes the Radcliffe Committee, "that as long as the securities are equivalent (as most of them must remain) to Government bonds, the monetary authorities should have unfettered discretion in the issue".<sup>1</sup> The Committee further observes, "we see no advantage in the issue by these industries of their own bills or short bonds, in so far as their financial requirements are fixed for periods fitting these instruments they should borrow through the Treasury, leaving to the monetary authorities the freest possible hand in market management."<sup>2</sup>

The burden of financing the public corporations will be too heavy for the Treasury to manage after discharging many other financial responsibilities in a growing economy. It is in the fitness of things that a National Finance Corporation should be set up for primarily meeting the financial needs of the public corporations which will entail many benefits, such as, financial forecasts of the corporations, the extent of their immediate short-term financial needs, allocation of funds according to priorities, and a co-ordinated capital programme of the public sector subject to the overall money and credit policies of the Government. This corporation should enjoy enormous power in formulating financial policy of the public corporations as a whole

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<sup>1</sup> Op. cit. para 594.

<sup>2</sup> Op. cit. para 595.

and the timing of the issue of bonds should be made on a close relationship and understanding with the Reserve Bank of India and the Treasury, and in respect of timing, it should always bear in mind that "the available resources of the market and alternative demands on them are decisive factors."<sup>1</sup>

### Sources of Finance External and Internal

The problem is, however, deeper and mere setting up of a central finance organisation can hardly grease the wheel. Where the finance for the public corporation in India is to be found from ? What should be the term of borrowings, and interest-rate to be charged ? What should be the role of foreign assistance in the public sector ? What should be the investment policy in a public corporation ? How are the surpluses of the public corporations to be treated ? These are but a few questions that need concrete answers. Obviously, the internal resources of India are too inadequate to meet the financial needs of the economic programmes. A study of the financial resources provided in the Five-year Plans can well impart an idea about the sources to be tapped to meet the finance.

Foreign assistance is absolutely necessary to feed the economy of India and in fact, the foreign debts of India are mounting. Mr. Eugene Black, the President of the World Bank, on April 7, 1960, in the Economic and Social Council of the U.N. cited India as an example of the States which had very little external public debt at the end of 1955 to have become "one of the major debtors on public account three years later", and he also made the forecast that in order to maintain and accelerate the momentum of development the country would require "continued injections of foreign capital for many years ahead."<sup>2</sup> But what should be the ratio of foreign finance to domestic capital ? In principle, foreign finance should not have a dominant role in development programmes of an under-developed country as external debts tend to saddle the internal economy with oppressive interest-rate and terms normally unwel-

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<sup>1</sup> U. N. : *Domestic Financing of Economic Development* (1950) p. 47.

<sup>2</sup> See, *The Statesman, Calcutta*, dated April 7, 1960.



come from a sound economic and political point of view.<sup>1</sup> Moreover, if foreign investors are in an advantageous position they must dictate terms which an under-developed country would be constrained to accept. An under-developed country should, therefore, concentrate more on the various devices of capital formation and mobilisation of savings to ensure an even and reasonably large supply of domestic capital rather looking to foreign funds because of the fact that "the servicing of a foreign loan is a fixed annual burden on the balance of payments ; excessive foreign borrowings may be a serious handicap to an under-developed country ; especially if the country's external markets are unstable."<sup>2</sup> No doubt that some amount of foreign assistance can help development of economic life of an under-developed country. But there should be a reasonable limit to foreign borrowing as it must necessarily be related to the country's current and future ability to repay such loans. Capital must be channelled into productive investment to get the yield sufficient to pay for the servicing of loans and repatriation of foreign investments, leaving surpluses for the increase of internal capital supply. Mr. B.K. Nehru, as India's Commissioner General for Economic Affairs in Washington while addressing the Luncheon Session of the Federation of India's Chamber of Commerce and Industry on March 29, 1960, has stated that "the additional capital required to enable the country to reach the 'take-off' state of economy was approximately Rs. 25,000 crores and the maximum amount that can be raised internally is of the order of Rs. 20,000 crores leaving a gap of Rs. 5,000 crores which would be raised by way of external finance."

In India, the policy of the public enterprises in respect of profits is well pronounced, in the words of the Planning Commission, that "it is only as public enterprises accumulate surpluses for capital formation on an increasing scale that they

<sup>1</sup> Charles Wolf Jr. and Sidney C. Sufferin—*Capital Formation and Foreign Investment in Under-developed Areas* U. N. (1955) p. 54.

<sup>2</sup> U. N. *Method of Financing Economic Development in Under-developed Countries* (1949) p. 99.

lay the foundation for a progressive country<sup>1</sup>." The Third Five Year Plan estimates surpluses from public enterprises (other than Railways) both for the central and the states at Rs. 450 crores.<sup>2</sup> But, it is too early to be definite about any substantial contribution of the public sector towards capital formation of the country after paying its own way and the observation as made by the Radcliffe Committee on this aspect of the British nationalised industries holds good in the Indian cases too. "But it would not be realistic", observes the Committee, "to look for a solution in this direction ; at present the nationalised industries are in total getting no net return on capital employed, and no rise in prices would increase the receipts of the railways or the coal industry enough to allow a margin for all their capital development. . . . and we have to look, therefore, for the best way of raising the very large sums that will certainly be required from outside the industries' own revenues."<sup>3</sup> In India, however, the authorities have an optimistic view of the matter, and the Congress Working Committee in its statement on economic policy has placed emphasis on public enterprise as "source of additional revenue."<sup>4</sup> Mr. Eugene Black, the President of the World Bank, is an astute advocate for fixing the prices at adequate rates so that a public corporation especially a public utility undertaking not only can pay its way but have sufficient surpluses for ploughing back for expansion.<sup>5</sup>

The pattern of foreign investment has, however, undergone a radical change in the modern economic situation of the world. Private borrowing has sunk "to a very low ebb" and in its place have grown specialised financial institutions of international character, such as, the World Bank, U.S. Import-Export Bank, International Finance Corporation, International Development

<sup>1</sup> Govt. of India—*Second Five Year Plan—A Draft Outline*, p. 30. See Also, Planning Commission. *Third Five Year Plan* p. 273.

<sup>2</sup> Op. cit. p. 97.

<sup>3</sup> Op. cit. para 592.

<sup>4</sup> A.I.C.C. Meeting at Abyankaranagar in January 1960. See the *Statemanean*, dt. 7. 1. 60.

<sup>5</sup> Article : *Financing Policy for Public Utilities in Indian Journal of Power and River Valley Development*, Dec., 1959 pp. 1-2.

Association, for providing loans to various countries. These institutions are the creation of the member-countries who provide capital to run them. Loans and grants on Government-to-Government basis nowadays have assumed importance of larger proportion in the matter of foreign finance, and this is likely to continue to be the most important factor for the under-developed countries inasmuch as the growth of nationalism and political consciousness in these countries will tend to discourage foreign private investment in these countries. The three "wise men" of the West—Sir Oliver Franks, Mr. Abs and Mr. Sproul in their visit to India sponsored by the World Bank also held the view that a substantial portion of foreign aid would have to be on Government-to-Government basis, although they placed for an increased contribution by private foreign investment<sup>1</sup>. The form of foreign investment has also changed in favour of direct or equity investment "so as to retain the policy control of the concerns in which the capital is invested in their own hands."<sup>2</sup> Equity capital, is in fact, at present "by far the most important form in which the foreign capital is available to secondary industry in less developed countries."<sup>3</sup> But it has already been shown that equity capital, in principle, should be shunned in a public corporation and the problem hinges on the determination of the form of foreign finance in a public corporation.

A distinction between enterprises with direct participation of foreign capital and those in collaboration with foreign capital should be made. The Hindustan Steel projects are purely enterprises in collaboration with the foreign firms but here foreign firms are not participants in future profits. This sort of external assistance is undoubtedly an welcome measure for India. The company type of public enterprises where there are equity shares may provide scope for direct participation of foreign capital. But this form of foreign capital that has a claim on future yield should be discouraged. Recently the U.S. investors

<sup>1</sup> *The Statesman*, Calcutta dated 20. 4. 60.

<sup>2</sup> Madan B. K. : *Forms of Foreign Investment in B. K. Madan (ed) : Economic Problems of Under-developed Countries in Asia* p. 4.

<sup>3</sup> U. N.—*Process and Problems of Industrialisation in Under-developed Countries* p. 84.

have become interested in putting in capital to set up industries in India in which the Government of India is to be the major shareholder. But it has a deleterious effect on the country's economy as a whole as many problems may crop up in future and foreign capital is bound to demand a definite policy and assurance about export of profits and repatriation of capital. In course of discussion of the Finance Bill, 1960, it was questioned in Parliament on 18th April, 1960, whether the foreign investors were being given extra advantage over the local investors, and this was denied by the Finance Minister, Shri Morarji Desai who said that the only incentive given to foreign investors was to allow them to repatriate profits "without which no investor would be attracted". Be that as it may, foreign investment directly to participate in future yield of the enterprise should be normally discouraged. In the case of public corporation, of course, there being no equity capital, this problem is not likely to arise. But the real problem lies in striking a balance between the maintenance of freedom of the public corporations from foreign equity capital on the one hand and the choice of foreign investors in the form of investment on the other. The foreign investor will not be allured to send capital abroad if that does not yield at least an equal return that is expected in the home country. Besides, there are many apprehensions that work in the mind of the investors in the matter of exporting capital, the most obvious of which is the restriction on the transfer of income and capital.<sup>1</sup> But the declared policy of India has left no room for doubt about the matter.

An advantage that usually emanates from the direct participation of foreign capital is the supply of technical and administrative "know-how."<sup>2</sup> But this cannot be an overriding ground for allowing direct participation of foreign capital in the development programme of the country. The correct form of foreign investment seems to be loans and this can only be ensured by approaching the institutional investors rather than private investors. Truly, in the present economic and political condition of India *vis-à-vis* the international monetary mechanism, the approach should be more to the institutions on either

<sup>1</sup> See, *the Statesman* dt. 2. 2. 60.

<sup>2</sup> U. N.—*Domestic Financing of Economic Development* p. 11.

Government-to-Government basis or between financial institutions of the respective countries. The country's national finance corporation, as suggested above, should be clothed with powers to negotiate directly with the international finance agencies subject to the approval of the Government. Experience hitherto can well assure of an even flow of international capital in India through institutional investors. In this connection it would be worthwhile to recall that the International Finance Corporation, as an institutional investor, can be profitably approached by the proposed Corporation to obtain a substantial amount of foreign finance. Recently, the International Finance Corporation for the first time in India, has invested \$ 1,500,000 (about Rs. 75 lakhs) in the Republic Forge Company in the private sector, and this source can also be tapped for public enterprises in India but in the form of loan capital. The International Development Association is another international credit institution which has started its first development credit in May 1961 having granted credits of \$ 108·8 m. This source should also be approached. The foreign investments should not, however, be allowed to be a factor of exploitation to the detriment of the economy of India.<sup>1</sup> In India, however, a very admirable method of admittance of foreign investments has been adopted, either in form of partnership in processing or manufacturing the product on a package deal without allowing the share of future yields to foreign capital and with the condition of a gradual process of transferring the management and control of the enterprises to the Indians. This method serves generally to ensure that "the type of investment is in accord with what is regarded as the national interest."<sup>2</sup> Foreign investment is also necessary for India in order to accelerate domestic capital formation as it is said that "international investment may be called pace-makers of progress in that they help to create the conditions for increased domestic savings and autonomous economic growth, the ultimate aim of all development programmes."<sup>3</sup>

<sup>1</sup> *The Distribution Gains between Investing and Borrowing Countries in American Econ. Review*, May, 1950 p. 475, also cf. Paul Baran : *The Political Economy of Growth*, 1958 p. 215.

<sup>2</sup> U. N. *Process and Problems* p. 85.

<sup>3</sup> *Public and Private Investment in Economic Development*—International Chamber of Com. 1955 p. 35.

### Self-financing

The ploughing back of profits as an expansionary measure of an enterprise has of late gained considerable importance in industrial fields. In private industries self-financing is now considered as an effective method of financing the expansion. The notable example is the £ 65 million programme of Ford Motor Company on development over five years financing "out of profits" by curtailing of "distributing awards". In India also, the limitation of dividend and the provision of various specific reserves or general reserves in the balance sheets of the private industrial sector bears testimony to the trend of self-financing. How far can the concept of self-financing be applied to the public corporation and what is its feasibility require proper scrutiny. Admittedly, in a socialistic economy, profit making by the public enterprises is an accepted principle. Profits can be dealt with in various ways. They may be disposed of by contributing wholly to the Treasury, or by distributing awards to equity-holders, if any, or by redistribution amongst the other public corporations or may be retained in the enterprise itself for further expansion. Surplus earning in the public sector for its further extension has been recognised for India.<sup>1</sup> In Great Britain, also, the practice of retention of profits has gained ground, for example, the British Electricity decided to allocate more than that of its record surplus of 1954 to a special reserve fund at £ 10·5 m. for replacing the worn-out assets. In its development programme of £ 1442 m. for seven years 1953-60 it estimated internal source of capital at £ 435 m. In the NCB also out of all estimated expenditure of £ 1000 m. during the decade 1955-65, about two-third would come from internal sources.

A distinction should be, however, drawn between self-financing in private industries and that in the public sector. Self-financing tends to curtail freedom of choice of the interest-holders in the field of investment. Re-investment of profits implies that an investment once tacked to an enterprise loses its freedom of being unfastened without a sacrifice. This is a major argument against retention of profits. In a private industry

<sup>1</sup> *Second Five-year Plan*, para 21. And also *Third Five year Plan* pp. 102-3.

there are equity holders who are more interested in earning returns and in enjoying freedom in the choice of investment. Retention of profits for the purpose of their utilising for future extension is virtually a compulsory investment of the shareholders' money and this is sometimes resented. Truly, a private investor may not be further interested in some of the fields of his original investment and here his reaction is very keen. But this is not so in a public corporation where there is no equity capital as here the initial finance is found by the Treasury and loan finance either from the Treasury or from other financial institutions. It is the consumers' money in the shape of surpluses in a public corporation that is applied towards self-financing. Objections may be raised as to whether it is equitable for the present consumers to subsidize in this way the capital requirements of future consumers. And actually, the Herbert Committee frowned on this practice<sup>1</sup>. But the answers provided by Mr. Hanson is worth quoting, as he observes, "Admittedly, if the enterprise makes profits and uses them for self-financing or if the State mops them up and invests them elsewhere, it is the consumer who pays and there is undoubtedly some inequity. But it is also the consumer in the long run that pays for loan financing and ultimately pays more".<sup>2</sup> Prof. Robson also holds that the nationalised industries are "as much part of the estate in the realm as any of its more traditional assets", and present generation is expected to contribute to the development, "the benefit of which can be enjoyed by future generation" and he supports the nationalised industries "to find as much money for capital development from internal sources as they think fit"<sup>3</sup>. But, of course, a caution should be there against self-financing becoming a method of "unchecked exploitation of a monopoly position in order to provide surplus for development".<sup>4</sup>

Self-financing as a concept of secondary finance for the public corporations in India can well prove worthwhile and important for future development schemes in India but nevertheless its

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<sup>1</sup> Report, paras. 344 and 345.

<sup>2</sup> Op. cit. p. 437.

<sup>3</sup> Op. cit. 310-11.

<sup>4</sup> Gordon L. Op. cit. p. 34.

extent is extremely limited and for many years to come investments in the public corporation are to be injected from sources other than the corporations themselves, as except in L.I.C., I.F.C. and A.I.I. there is no perceptible surplus for the purpose of ploughing back. Though the financial condition and results of the working of the corporations cannot provide an immediate hope for any effective scheme of self-financing, an optimistic view about its future applicability should never be cast off.

Nevertheless, the concept of self-financing should not be made so narrow as to confine itself to the same undertaking or enterprise, as it would lead to an uneven development, and also the problems of financing new fields of economic activities would be more acute. It is, therefore, desirable at least in an under-developed country like India that the surpluses of one public corporation may be retained in the same enterprise as well as invested in freely selected fields of other public enterprises for expansions both vertically and laterally. But this can only be achieved when the surpluses of each corporation are accounted for in a common pool so that allocation for new investments may be made from this pool, and for this, proper authority should be conferred on the National Finance Corporation to deal with the surpluses and to allocate for re-investment with the approval of the Government. And here, the problem arises about the control of investment.

Investment in the public corporation in India should necessarily be under the control of the Government with a view to achieving an even distribution of resources considering the priorities and making worthwhile investments from the point of view of economic and social interests. Even in a highly developed country like Great Britain the investment policy of the nationalised industries is subject to the approval of the Government,<sup>1</sup> and in India, the State should assume fuller responsibility in directing the investment of the public corporation. The priorities have to be determined in the light of the needs of the country and this function can be effectively carried out by the Government. The question, therefore, naturally arises

<sup>1</sup> Radcliffe Committee : *Op cit.* paras 85 and 501.



whether the Government should assume direct control over the spending policy of the public corporations or the Government should delegate the authority to some other centralised agency. With the creation of the national financial corporation and with the statutory obligation of placing the Annual Budget by each public corporation the determination of investment policy and disposal of surpluses can be primarily taken up by the finance corporation which should plan the investment and seek the approval of the Government. This arrangement will ensure effective control of the Government over the investment policy of the public corporation relieving the Government of the heavy task of co-ordinating the work and investment estimates of each public corporation. At the sametime, the objectives of the public undertakings can be more effectively carried out through the National Finance Corporation.

The programme of financing the public corporations in India can, however, be successfully implemented by a well-knit frame of fiscal and monetary measures, a reasonable import of foreign funds without political strings, deficit financing within limited bounds, a planned way of dealing with surpluses and a budgetary method of investment and spending policies of the corporations in keeping with the national interests and through the medium of the centralised control of the national finance corporation with approval of the Government. But serious consideration needs be given to the method of mopping up investible internal finances through an active programme of incentive capital formation in the country.

## **CHAPTER VIII**

### ***INDUSTRIAL RELATIONS***

#### **PART ONE**

##### **Handicap in public sector**

In order to realise the manifold labour problems in the public corporations, the incidence of nationalisation on labour needs to be understood. An intimate study into the position of labour in the new set-up of nationalised industry reveals that the position of labour is to some extent different from that under private employment. The difference is mainly noticeable in the following aspects :—

- (i) Nationalisation brings in its fold all the units of an industry under a unified management and control, affecting the position of labour and it becomes a case more akin to bilateral monopoly.
- (ii) Public enterprises are, as a rule, run more on social objectives than profit-motives. Hence, labour engaged in a nationalised industry cannot launch a fight basing their demands on the profits of the undertaking as in the case of a private employment, where profit is a forceful factor for pushing on labour's demands.
- (iii) In a nationalised industry labour and the state have a unity of interests and these are complementary. A worker, therefore, has to develop the ideals of social service in unison with the objective-frame of the state.
- (iv) A structural and technological change introduced into the enterprise has the danger of not only throwing

a portion of labour out of employment but also putting the specialists out of gear.

The state has the prime responsibility of recognising labour as an important component of the enterprise. The Board is saddled with the onerous task of achieving this end by developing a proper and mutual understanding with labour. The Board must, therefore, realise that the interest of labour is completely in unity with that of the enterprise, and bring about better industrial relations. The task of the Board of nationalised industry at the outset, therefore, lies in the reorganisation of the industry suitably for a unified management control of the diverse units of the industries brought under public ownership and in determining a national policy. This is certainly not an enviable task for the Board as it implies a great amount of skill and tact in having a smooth change-over. The Life Insurance Corporation of India was thus "confronted with the task of integrating into one organisation the controlled business of 243 different units which were engaged in the transaction of life insurance business in India. These units differed widely in age, size, pattern of organisation, in fact in every aspect of working. The total assets of these units as on 31st August, 1956 were about Rs. 411 Crores and the total number of policies in force was over 50 lakhs assuring a total sum of more than Rs. 1250 Crores. The total number of salaried employees was nearly 27,000. These figures give a broad idea of the magnitude of the problem involved in setting up an integrated structure."<sup>1</sup> Likewise in air service, "the first year following nationalisation was one of exceptional difficulty owing to pressing problems of integration." The eight air companies had assets of the value of Rs. 302 lakhs and in accordance with section 20 of the Act, all the employees of the eight companies "with the exception of certain business executives" continued to be in the employment of the Corporation on their old terms and conditions of service. The staff strength roughly as on 31st December, 1954 was 7107 employees of different categories. "There was such wide disparity in the methods of organisation and administration between the various units that a new pattern had to be evolved to meet changed conditions of management" and the process of

<sup>1</sup> LIC. Interim Report op. cit. 1957 p. 3.

integration "in all its phases was completed by the end of December, 1954"<sup>1</sup>. But the position was not so, however, in the Air India International which took over as a going concern, the assets and business of Air India International Limited and prior to the Air India International Limited's undertaking, all the workshop equipment and ground facilities used in the company's business were owned by Air India Limited, and Air India Limited being one of the domestic companies was taken over by the IAC. "Consequently, in contrast to the I.A.C.'s task of integrating the organisations of eight airlines, ours was to disentangle the previously integrated organisation of Air India Limited and Air India International Limited and to build a self-contained air line with its own workshops, ground services, offices and sales organisation," stated AII.<sup>2</sup> In the U. K. also the National Coal Board had to bear the brunt of reorganising 8-million employees in 800 units, and the magnitude of the task to implement a unified management in the heterogeneous organisations, nurtured under different conditions of management and employment conditions, can better be conceived than described. Problems of reorganisation for the purpose of integrating various units into a unified management are inherent in case of nationalisation of a private industry. But no such problems exist in the case of new public enterprises as the State starts with a clean slate. But labour poses problems different from reorganisation of management. The Boards are confronted, at the very beginning, with problems which may be enumerated as : (a) recognising appropriate unions, (b) gradation of employees, (c) laying down labour policy compatible with the national interest, (d) fixation of national wage-rates, (e) personnel management policy, and (f) workers' voice in the management.

The reorganisation involves grouping of different units in an area and consolidating the units of a region under a Divisional Board and a recast of managerial and technical posts. This recast will have found different unknown men coming together

<sup>1</sup> IAC 1st Annual Report & Accounts Aug. 1953, March '54 (paras 4-15).

<sup>2</sup> Air India International Corporation : First Report Aug. '53 —Mar. '54 paras 8-11.

working in a new region and atmosphere, under a remote control. The managers and technical staff in a private industry having intimate knowledge of local labour and their individual and social problems, by a ready contact with the "bosses", can afford to tackle the problems by way of adjustment and compromise with necessary speed and tolerance, which, however, are lacking in a centralised management of a nationalised industry. But the territorial regrouping of workable units is concomitant with organisation of the nationalised industry and as a result of regrouping, the workers sometimes find themselves cut off from the old ties or workers' unions and put in a new association with the workers having allegiance to a different trade union. But consolidation of units leads also to consolidation of trade unions and, more often than not, the different trade unions merge in larger unions. Thus, in Britain the different unions of an industry merged into a single consolidated union after nationalisation. In India also the case cannot be otherwise although inter-union disputes are not absent. Admittedly, where there is a single union the Board is at a less disadvantage to negotiate and maintain an even industrial relation. But it will be seen that even in Britain the Boards were often confronted with difficulties in extending recognition to unions.

### **Recognition to appropriate union**

The nationalisation Acts put an obligation on the Boards to negotiate labour problems with an organisation "appearing to them to be appropriate". But the difficulties initially felt by the Boards are two-fold, (a) to determine the "appropriateness" of an organisation and (b) to keep off rival unions from interfering with the management and disrupting the existing industrial relations. Initially, each trade union of an industry must be inclined to assume and uphold its importance in the industry for having a permanent footing in the organisation by obtaining recognition from the Board. Each union must necessarily claim superiority over the other in matters such as, having larger enrolment, having more skilled and important sections of workers on its register, having better past history of conciliatory spirit in matters of negotiation and settlement, and so on. "Poaching" becomes evident and rivalry between

unions becomes manifest. This sort of affairs brings a great embarrassment to the Boards and call for much tact and skill on the part of the Board in handling the situation. In Britain, for example, in coal, the right of the National Union of Mine-workers to represent the members of the trade was disputed by the Colliery Winders Federation but without success. Similarly, in Road Haulage, disputes arose between the Transport and General Workers' Union, the Transport Salaried Staffs' Association and the National Association of Local Government Officers.<sup>1</sup> Experience shows that the unrecognised unions are however, allowed to negotiate through the recognised unions. For example, the N. U. M. acts for the Amalgamated Engineering Union and the Electrical Trade Union in Coal industry. While in the Electricity Authority, the Electrical Power Engineers' Association acts for members of the Association of Engineering and Shipbuilding Draughtsmen.<sup>2</sup> Happily, the Boards of the nationalised industries of India had to face less difficulty in this respect inasmuch as the unions existing before nationalisation were given recognition, and negotiation is made through the machinery of the Federations. In order to avoid any conflict in the matter of recognition a Joint Council of the Boards of nationalised industries and Trade Unions with a committee to sift the claims of rival unions and to place them before the Joint Council for their final settlement seems desirable. In India, the unions are generally affiliated to the four national bodies such as, All India Trade Union Congress, Indian National Trade Union Congress, United Trade Union Congress and Hind Majdoor Sabha. But it should be noted that the different unions in different industries retain their independent entities and enjoy freedom in negotiating terms and conditions of employment but experience shows that in times of major disputes or national policy agreement the main bodies, either singly or united, negotiate on behalf of the respective unions. The national unions are not always in accord with one another, as experience tells. Criticism and vilification against each

<sup>1</sup> Acton Society Trust : *The Future of Unions* (Nationalised Industries Series p. 5).

<sup>2</sup> Acton Society Trust : *Ibid* p. 6.

other are not uncommon.<sup>1</sup> Union rivalry is inevitable but the danger lies in the unions set up with a political back-ground because they are likely to be prone towards achieving political ends even at the cost of the workers' benefit.

Because of the peculiar labour condition in a nationalised industry, the recognition of the unions by the Board should be so accorded as not to allow any misapprehension in the mind of the workers that there has not been a square deal because of some predilection or wilful choice of the authorities. In a private industry, as observed by Prof. Radhakamal Mukherjee, "It is the managements' deliberate policy, of non-recognition of unions and persistent refusal to deal with the accredited representatives of the unions that is one of the most frequent causes of strikes in India."<sup>2</sup> It is also a common feature of the management to make every attempt to disrupt the union by means fair or foul and to split it into rival groups, one obviously having more leaning to the management as fed it is by the management. The Boards, therefore, have to be much cautious in extending their recognition to the appropriate unions and for this there should be two-fold considerations mainly, (a) unions commanding substantial majority of the workers and (b) behaviour of such unions in the past. It may be difficult to put up with hostile unions that cause disaster to the very objectives of nationalisation by their recalcitrant attitude. But there is no doubt that caution has got to be exercised by the Boards in dealing with labour problems, and "if conditions of work in public undertakings are expected to act as an example for the private sector, administrators in charge of these undertakings have to be especially watchful of the interests of workers."<sup>3</sup>

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<sup>1</sup> The Statesman, Editorial dt. 5.8.58. The recent (August 1958) controversy between INTUC and AITUC is an instance in point where Mr. Chandravarkar, President of AITUC criticised the . . . INTUC as a weakling having connection with the ruling parties and as such could act little in furtherance of the workers' interest and Mr. Ramanujam, President of INTUC offered a reply thereto denying that the organisation is a part of Congress Party.

<sup>2</sup> *Indian Working Class*, Bombay 1948 p. 345.

<sup>3</sup> Govt. of India : *Second five year plan : A draft outline*, 1956 p. 171.

### Tasks of reorganisation

Nationalisations of an industry hitherto in the private sector involves complicated tasks of reorganisation, and the matter of gradation of employees of different units brought under a unified management will certainly prove an onerous task. Employees in different units under private management having different grades and scales of pay are to be brought under unified scales of pay for each category of employment and here the Boards are likely to find themselves in a difficult predicament to have the concurrence of the unions on gradation and new scales of pay, because no Board can afford to fix the scales on a comfortable monetary benefit for all employees without causing costs shot up and this is at the cost of the community. As the Interim Report of L.I.C. states that "standardisation of pay scales and service conditions was an absolute necessity if the Corporation was to function as an organic whole but the widely differing salary scales, service conditions and other privileges granted by the respective insurers presented serious difficulties in bringing about uniformity."<sup>1</sup> In the Indian Airlines Corporation, "A services committee was also appointed to make recommendations on rationalisation of pay scales for different categories of personnel and formulation of a suitable wage structure and common conditions of service."<sup>2</sup> Not only substantial wage differences from firm to firm have got to be patched up but unified scales of remuneration required also to be so determined as not to deter fresh entry. Wage relativities have also got to be determined as between pieceworkers and day-wage labourers in the same industry as also in different nationalised industries, as wage policy in the public sector might have a large effect on that of the private sector as well as the wage structure of an industry might affect that of another industry.<sup>3</sup> Old workers may reluctantly continue with discontent at revised scales of pay because of absence of any alternative employer, but this dissatisfaction not only causes immediate harm to the industry but apprehension of potential

<sup>1</sup> Ibid p. 6.

<sup>2</sup> IAC 1st Report Ibid para 4.

<sup>3</sup> Cole G. D. H. : *"Labour and Staff Problems"* in Robson W. A. Op. cit p. 126.



labour mobility being there, it is bound to be inimical to a nationalised industry. The present condition of India, of course, gives little apprehension in this regard so long there is no full employment but discontent among workers is a potential threat to the progress of a nationalised industry which may lead the workers to resort to a "go-slow" policy that would surreptitiously do more harm than it would cause from their open withdrawal from work. The Boards cannot, however, avoid the initial difficulty of gradation and fixing rates, and trade unions's active co-operation is of immense value in finalising the issue. A duty is, therefore, cast upon the unions to convince their members of the joint decision in this matter to avoid any conflict and disruption among the members of the respective unions in future. The Board can ill-afford to go about its own way, and a close co-operation of the recognised union should be sought in determining appropriate grades and scales of pay. Here an open mind on both sides is a vital condition of successful negotiation and happy relationship. Indeed, "the mere fact that employers and workers agree to bargain collectively is not sufficient to ensure satisfactory relationship. Much depends on the state of mind in which they engage in negotiation."<sup>1</sup>

The Board of Life Insurance Corporation had to encounter this difficulty and a number of concessions have been allowed to field-workers. The Board of a nationalised industry have, therefore, to look to the following aspects before finally deciding on gradation and remuneration—(i) to take a stock of the existing position, (ii) to lay down schemes of gradation and scales of remuneration in keeping with the existing and foreseeable economic condition, (iii) to invite opinion of the Union leaders and holding conferences with them if necessary and (iv) to look to any ministerial suggestion and advice. The Board must strike out a balance between labour-incentive and consumer cost in determining the scales of remuneration, and providing welfare services to workers. A high wage structure and excessive welfare cost would involve the enterprise in excessive costs that will reflect in higher prices, and it is the

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<sup>1</sup> International Labour Conference, 38th Session, *Report of the Director General*, Geneva 1955 p. 64.

consumer who pays, through higher prices. "Thus 'welfare' in one part of the economy gives rise to 'illfare' elsewhere."<sup>1</sup>

The Boards of all nationalised industries must put their heads together to evolve the schemes of gradation and remuneration so that the remuneration does not vary widely for like employments in different industries. Otherwise, a great mobility of labour would ensue and in some fields labour would be scarce, and especially, this would be the case with regard to unskilled labour. In fact, consideration of wage relativity is of great importance in nationalised industries. Wage relativity is not only to be considered in the nationalised industries of the country itself but of their counterparts in other parts of the world. This is especially necessary in determining the pay-scales of technical staff, as otherwise the technically skilled personnel would always be on the look out to slip away to more remunerative employment in other countries. This may be illustrated by the resignation of three commanders and pilots of IAC.<sup>2</sup> Really, wage-structure of technical personnel should be fixed on a judicious consideration of the situation, so that the tendency of the personnel to leave the employment may decline.

Gradation and scales of remuneration are but a part of labour problems. Policy should be laid down as to an over-all condition of employment. The Boards should never be dictatorial in determining labour policy and evolving principles of employment as that would cause labour unrest, because no union can be expected to acquiesce in the one-sided arrangement. In the present day, a new concept known, as "national agreement" has developed under which the Federal body of the Unions reaches an agreement with the controlling authority of the industry with regard to standard wage rates, and conditions of employment and other procedural matters viz : negotiation and arbitration. National agreement may sometimes be on matters relative to the industry as a whole as well as on specific local or regional matters.<sup>3</sup> National agreements cannot, however, be

<sup>1</sup> Hanson A. H. : op. cit. p. 470.

<sup>2</sup> See the Estimates Committee Report 1956-57, New Delhi, para 50.

<sup>3</sup> Cole G. D. H. : 'The post-war condition of Britain 1956 p. 432.

as comprehensive as not to leave any thing 'untouched because many matters would depend on circumstances of the time, place and economic situation. Such agreements 'might, therefore, require proper and suitable adjustments on periodical review of the situation in the light of national interests. Nevertheless, national agreements bind the boards and the unions to abide by them and this has certainly a wholesome effect on labour relations. In the nationalised industry labour and management must be in complete accord to fulfil national interests. It is in the fitness of time that in the Indian nationalised industries "national agreements" on various labour problems should be concluded so that broad basis of labour relations is laid down and suitable modification thereof may be made as and when necessary. National agreements should principally embody the following principles : (a) forms of negotiating machinery, (b) forms of negotiation and bargaining, (c) forms to avoid strikes and lock-outs, (d) general conditions of work, (e) standard wage-rates, (f) promotion policy, (g) forms of settlement of disputes by arbitration by reference to the Ministry of Labour, or labour courts under Industrial Disputes Act.

### **A National Agreement**

It remains to be considered how the wages should be fixed, union wise in respective establishments or industry, or on a national basis by a collective bargaining between national unions and Government on the basis of Agreements on a national wage policy. Statutory wage regulation prevails in the United Kingdom, the U.S.A. and a few other countries. But there is no such law in India and no collective agreement on a national basis is in vogue. But the Government is alive to this issue. As to the question of application of the Nainital Code of Discipline to the public sector Mr. Gulzarilal Nanda, the Union Labour Minister reiterated his view that the Code should apply to both public and private sectors.<sup>1</sup> Nevertheless, it is true that there is nothing known as "national agreements" in India. In view of the extension of the public sector especially to the infra-structural sector of economy this matter should receive active consideration of the Government.

<sup>1</sup> See the Statesman, Jany. 22, 1955 p. 11.

National agreements can hardly be effective unless the Federation enjoys enough powers over the affiliated unions. Trade union leaders have the responsibility of educating the members about the beneficial purpose of the national agreements so that they may not be foiled by inter-union disputes. The duty of the federal body thus is of no mean dimension. Inter-union disputes arise due to various causes that sometimes culminate in the disintegration of the Unions. Trade Union Congress in Britain is also conscious of this difficulty and in 1949 Mr. Arthur Horner introduced a resolution for increased co-operation between the Unions themselves, and the Unions and the Boards of nationalised industries. It was felt that the Trade Union Congress had little power over the unions to enforce its award and recommendation beyond persuasion, and in extreme cases it may exercise its power of suspending membership of a union. But this is no remedy. The glaring example of inter-union disputes was noticeable in the British Electricity Authority when a strike ensued from a dispute arising between the Electrical Trade Union and the Transport General Workers' Union on the issue of an appointment of a single person<sup>1</sup>. It was, therefore, urged to create a joint council of the Boards of nationalised industries and appropriate trade unions as well as to set up a committee of the General Council to promote understanding and co-operation among the trade unions and "deal with any difficulties that might hinder the success of nationalised industries."<sup>2</sup> This idea should also engage the attention of the Trade Union leaders in India and the Boards of nationalised industries. National agreements are not in vogue till now in the nationalised industries in India though agreements on some points as to wages and other working conditions have been concluded by L.I.C. and other corporations. Undoubtedly, with the growth of public ownership national agreements are likely to play an important part in deciding industrial relations. The Trade Unions concerned should also see that nothing is insisted upon that may cause costs to rise to the detriment of the

<sup>1</sup> Acton Society Trust : *The Future of Trade Union, Nationalised Industry Series* p. 26.

<sup>2</sup> Acton Society Trust : *Ibid* p. 10.

national interest.<sup>1</sup> The Boards and the 'unions may not sometimes see eye to eye in particular issues, but "it is possible to establish some common aims between management and labour despite the fact that there may be some areas of conflict"<sup>2</sup>. The matter cannot, therefore, be concluded in see-saw fashion but in definite policy on a proper consideration of peculiar circumstances inherent in a nationalised industry. Although labour has less bargaining strength because of absence of alternative employer but this never has been seized as an opportunity for exploiting labour in a nationalised industry as the British experience reveals. Dissatisfaction is more pronounced against remote control and hierarchy of management than against wage rates and working conditions.<sup>3</sup>

### Problems of wage fixation

The Boards cannot ignore wage-costs in determining wages rates. Higher wages can only be paid if they are compensated by higher productivity in order to arrest inflation and its concomitant evils and to benefit consumers. Otherwise the effect of high wages on the society is bound to be disastrous. Prof. Taussig observes that "that employer is most efficient who contrives to pay the highest wages" and this is true because of many factors, such as creating confidence in the workers, improving their incentives, and ultimately raising the level of production and keeping price level even. Wage policy in a nationalised industry needs to be determined in relation to social costs. "Fair" or "reasonable" wage to maintain the living standards should be "woven as warp and woof into the texture of wage discussion". But perhaps there is little dispute over the principle that a nationalised industry cannot in any circumstances meet increased wages "out of superabundant profits." Nationalised industries "can only pay their workers more by charging more to consumers, a fact which can hardly fail to sharpen both their own need of a wage policy and the

<sup>1</sup> Cole G. D. H. : *Trade Unionism in the Modern World* p. 279.

<sup>2</sup> E. B. Sharp : *The Modern Approach to Labour Management*, 1952 p. 4.

<sup>3</sup> Acton Society Trust : *The Worker's Point of View* p. 24.

public's interest in their decisions."<sup>1</sup> In order to keep the prices down, Mr. Hanson holds that welfare services for the workers in a nationalised industry in excess of those generally available "should be the responsibility, not of the enterprise, but of the relevant departments of state, should be financed out of the proceeds of taxation and or social insurance contributions, and made available as far as administratively practicable at a uniform level to all sections of the population which have need of them"<sup>2</sup>. This observation is no doubt sound but it is at the same time true that the possible amenities should be extended to workers for increasing their efficiency and creating in them a sense of satisfaction over the conditions of their employment and this is the primary responsibility of the enterprise itself. The correct method is to assure the workers a reasonably good condition of service, adequate remuneration with amenities to develop themselves for efficient discharge of duties, and if the nature of enterprise is such that the consumer cannot be made to pay the cost, the state should grant subsidy. Indeed, general welfare services, unconnected with the enterprise itself, are the responsibilities of the state to be discharged in a planned manner embracing all men of the community including the workers of state enterprises. It should be borne in mind, as observed by Prof. Hart, that "for the men who make the metamorphosis from the long millena of hereditary tasks to the technological economy need something besides pay and housing to attract loyalty. They need a sense of their place in the new economic world as real, personal and immediate as the ties of family, land and village"<sup>3</sup>. Economy of operation is, however, a vital factor in a nationalised enterprise and the Boards should apply their mind to this aspect while determining wage policy.

Wage differentials between different types of employment, skilled and unskilled labour, technical and non-technical hands are to be determined keeping in view the impact of such policy

<sup>1</sup> Barbara Wootton : *The Social Foundation of Wage Policy* 1955 p. 106.

<sup>2</sup> Op. cit. p. 470.

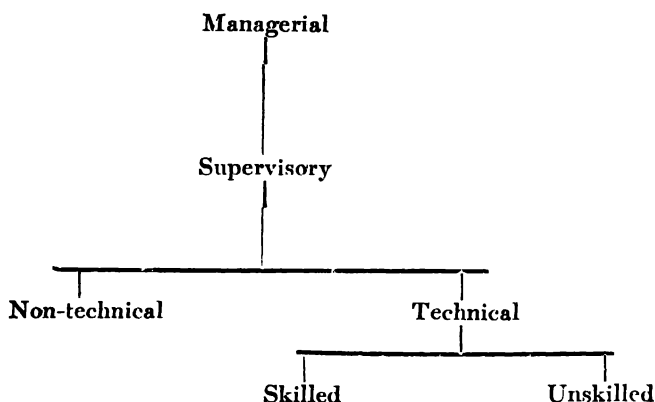
<sup>3</sup> Op. cit. p. 186.

on wage-costs and total cost so that insuperable difficulty may not be encountered in achieving the test of break-even taking one year with another. Barbara Wootton puts emphasis on the mode of distribution which, she holds, as vital in keeping the inflationary trend within bounds. Social foundation of wages follows social planning and must take into account labour force to be employed giving due allowance to technological changes and innovations, wage-fund and its distribution pattern. Unified control and management of an industry can make such planning possible to ensure an overall efficiency. Social welfare which is compatible with the objective of nationalisation must be a factor in determining wage policy in a nationalised industry. Here again, the national wage policy can be effective only if the central union has a towering influence over the member unions as in the case of national agreements.<sup>1</sup> Though primarily wage policy is to be determined by the Board in consultation with the union, the Government cannot be altogether disinterested in it. No doubt a nationalised industry is not only to be supported by government subsidy but it is to have an independent finance. Nevertheless, if a deadlock occurs out of labour disputes, the Government cannot be a silent and disinterested spectator and is bound to intervene for a happy settlement. A question, therefore, arises whether the wage policy of nationalised industries has got to be ratified by the Government and if so, will not that mean a curtailment of the Boards' autonomous action? Certainly this has got to be considered as the interests of the Board and the Government are but mutual. The Boards of nationalised industry should enjoy complete freedom in determining wage policy in consultation with the respective unions within the determined labour policy of the Government and reference to the Government for its ratification does not arise because the Minister enjoys overwhelming powers over the Boards to curb any action of the Boards that directly goes against the avowed policy of the Government. Recruitment and promotion policy in a nationalised industry should be chalked out on very sound lines.

<sup>1</sup> Cole G. D. H. : Op. cit. p. 421.

### Position of Trade-Unionist

The staff of an industry can be broadly classified as under—



It has already been shown<sup>1</sup> that the trade-unionists in Britain in accepting the Morrisonian type of public corporations discouraged direct representation on the Board of nationalised industries. Moreover the trade unionist who is to act as Board member should necessarily resign from his assignment in the union and become unified with the management. In fact, the trade unionist member of the Board must often find his position unenviable as he is "usually written off as lost to his comrades." He often finds his position embarrassing in discharging duties in a dual capacity, the interests of which are not always identical. The trade-unionist member of the Board has the prime responsibility in discharging his duties towards achieving the purpose of the public enterprise and should place this responsibility in priority over any other commitments. Half-hearted service should always be discouraged in a nationalised industry and the members should develop a spirit of nationalism in advancing the cause of public undertakings. Experience shows that the Members of trade union often look askance at a trade-unionist member of the Board and perhaps not always rightly, accusations are made against him as "gone over to the other side." How embarrassing the position of such member may be come can best be imagined from the role played by Mr. Bussy,

<sup>1</sup> See ante p. 159-60.



a former member of the Electrical Trades Union, in arguing on behalf of the British Electricity Authority, against the claim of his former union before the Court of Inquiry regarding a strike in British Electricity Authority in early 1951 that ensued from the appointment of Mr. Fred Johnson<sup>1</sup>. In fact, the trade-unionist member of the Board must be called upon to negotiate, settle and put forward the case on behalf of the Board relating to labour, as experienced he is in labour matters, and herein lies the difficulty of the member to do justice to his new assignment by continuing at the same time as a member of the trade union. It is in the fitness of things, therefore, that a convention has already grown in the British Boards not to take in a trade-unionist member but for the whole time and on his resigning from the assignment of the union. A perusal of the different proceedings of the Trade Union Congress in Britain reveals that the consideration of Trade Union representation on the Board that began in 1931 was finally settled in 1944 by a report of the Trade Union Congress General Council, approved by Congress, in favour of non-representation of the trade unions in the Boards of nationalised industries. But it does not in any way prohibit a trade-unionist from becoming a member of the Board but for full-time.

Workers' representation on the Board is not supported by some authorities in India. Mr. V. V. Giri observes that "the experience of the working of some of the industrial units in the public sector where labour representatives have been included in the Boards of Directors has not been encouraging"<sup>2</sup>. The constitution of the Boards in India has not followed the British practice and it will be seen that in some Boards trade unionist members are present. For instance, there are trade-unionist members in Air Corporations, I. F. C., Employees State Insurance Corporation etc. But a study of constitution of the different Boards in India imparts an idea that the presence of trade union member is far less in the public corporations though they are present in the Boards of Directors of other forms of organisations of public undertakings. The D. V. C. has no trade unionist member, so also the Board of the L. I. C. India should,

<sup>1</sup> Aton Society Trust : *The Future of the Unions*, p. 16 and p. 21.

<sup>2</sup> *Labour Problems in Indian Industry*, 1958 p. 194.

however, follow the British practice. Appropriate machinery should be set up to negotiate and put forward labour problems, and this may be achieved through Works Committee, Joint Consultation Council etc., which are discussed in the next part of this chapter.

### Criteria of Promotion

Nationalised industries should have definite policy in the matter of promotion. The usual criteria of promotion are (i) merit and (ii) seniority. Seniority is a very hackneyed criterion for promotion and is a stereotyped method without any grace in it. Experience shows that seniority is more followed by the Government departments while merit is more rewarded in commercial concerns. In big private commercial firms like I.C.I., Uniliver Bros., etc., examples of promotions from humblest rank to the highest rung of the ladder are many. It is a pity that in the Indian commercial undertakings recruitment to the top-posts as well as promotions thereto are more traditional and based on personal choice than on competition and merits. This method should never prevail in a nationalised industry. There can be hardly any argument against the proposition why an able man should not be allowed to go up to the highest rung of the ladder of administration. No despotic choice for promotion should, however, have place in a nationalised industry in order to avoid dissatisfaction among the staff.<sup>1</sup> Argument runs, "first deserve, then desire" and this really implies merit. But opportunity must be there to improve one's efficiency which can be achieved by proper training and care. Nationalised industries should open up opportunities for equipping the staff for promotion to higher posts. One should not suffer from the misapprehension and go on to say "Give him the position and he will be all correct" for in it lurks the danger of a wrong choice that may precipitate a serious set-back to the efficient conduct of the industry.

The promotion policy in the British nationalised industry has been diverse. The unions put forth 'seniority' as the criterion for promotion in lower grades and 'merit' in higher appointments. In technical service, however, the determination

<sup>1</sup> Krishna Menon Committee op. cit., para 50.

of merit and ability is less simple because difference in ability may be "too fine to discriminate" and here the only solution is to adhere to the principle of seniority. For example, in Air, Pilots are promoted by seniority, as merit and ability of the candidates are almost the same. Seniority must, of course, have a superior claim for promotion provided it is associated with merit. In case of the Railways, seniority is primarily the criterion for promotion although merits are not overlooked. But where two candidates are equally meritorious, the senior one gets the preference.<sup>1</sup> Analysis of the promotion policy in British nationalised industries reveals that by and large seniority holds the ground, though in some cases merit has an equal consideration and sometimes outweighs seniority in matter of promotion. In gas, for instance, in some area boards promotion is purely on merit. In the matter of promotion, however, the procedure followed in London Transport is worth considering for its introduction, in a modified way as suggested below, in the Indian public corporations. Here promotion procedure, elaborated in consultation with union in 1947, is to prepare a list of suitable candidates for the posts and the employing officer is to sift the candidates and the staff officer may or may not make additions thereto. A panel of officers thereafter interview the listed applicants and place them in order of merit on the result of interview and the employing officer finally selects from amongst them. This procedure offers opportunity to the staff of placing their candidature when occasion arises, as well as making impression on the interviewers. Whereas promotion on mere confidential reports as practised in the Airways may not always ensure a fair deal as personal opinion of the reporting officer on which the confidential report is based may not be always fair.

Under the Industrial Management Pool Scheme<sup>2</sup> in India the promotion has been laid down strictly on merit and on approval of the Board. This has, however, got a reverse side which also should be taken notice of. The success of industry is dependent upon the joint effort of all members of the staff and no part of

<sup>1</sup> Acton Society Trust : *Problems of Promotion Policy* 1952 p. 8.

<sup>2</sup> *Gazette of India* dt. 23. 11. 57.

success can be attributed to the efforts of a particular person or persons and, therefore, the question arises what should be the basis of judgment of a man's efficiency in a nationalised industry. Where efficiency cannot be known precisely by result or cannot be directly attributed to the result, the man's alertness ability of grasp, sense of proportion and judgment, penetration, uprightness, discipline, faithfulness and integrity should be the criteria of efficiency. But the difficulty arises when a man for a minor lapse or otherwise has incurred displeasure of his immediate superior officer whose confidential report is of primary importance in judging his efficiency. What is the remedy in such a case? Obviously, the mere report should not be taken too far to shut out a man from getting promotion. A Promotion Committee should judge and weigh the efficiency of the person in the proper light referring to the record of his work as well as by personal interview and looking into his past performance in or outside the undertaking. In fact, an employee in a nationalised industry should feel that proper justice is done to each case and there is little cause of grievance against the final decision of the Board. The Boards should be the final authority in approving the promotion of the staff. In the matter of promotion, however, these factors should be considered of an employee : age, efficiency, academic and technical achievements, antecedents and the record of his present service. There must be a minimum period of his service in the industry itself to make him eligible for promotion. The local and regional chiefs should prepare a list of candidates mentioning the details of the records and past history which should be consolidated by the staff of the Promotion Committee, and a panel of Officers of the industry with one or two Board members and a member of the Service Commission constituting the Promotion Committee for each rank of employment should take interview of the candidates and the selection should be made according to the ranking of the candidates. This procedure would not only be wholesome but would go a definite step towards improvement of industrial relations.

### **Training and Treatment**

The unions should play their part with proper understanding and judgment to lay down procedure of promotion. Once the procedure is laid down prerogative should lie with the

management in this matter and the union has little to interfere unless there is gross violation of the procedure and the scheme. The three-tier system of management involves diverse methods in recruitment and promotion policy. Local people are preferable for local units to keep the cost at a reasonably low level, so also promotion in the local management may be made from the local staff. In the D. V. C. it is the policy in general, to employ local men upto the posts carrying pay of Rs. 200/- per month. The appointment in a managerial posts should be made from a wider field by the Division with the concurrence of the Board. The responsible posts in the Division must be filled up by people from a wider area and directly by the Board in consultation with the Divisional Boards. A demand of the working staff for scheme of promotion to higher posts from amongst them is hard to ignore and should never be pushed aside. Ability is, however, gained by education and training and, a nationalised industry should have training schemes and facilities. The N. C. B. has embarked on a scheme known as "Ladder plan" for extensive training for equipping the staff to be promoted to different higher ranks and grades. Summer schools have been opened for this purpose. In India, civil aviation has training college for technical staff but nowhere non-technical staff have any facilities to grow up by methods of training. Recently the Administrative Staff College, at Hyderabad has been training the top executives, and L. I. C. has been availing of the facilities of this training.<sup>1</sup> Training scheme of the D. V. C. both for technical and non-technical staff should be intensified. In fact, the D.V.C. can be the forum of educating Indians in many ways such as hydroelectrical engineering, irrigational process, river-project problems and other accompanying subjects including national service extension scheme. Both theoretical and practical training should be imparted not only to the existing staff but also promising youngmen on apprenticeship scheme. The L.I.C. should also open centres of training of field-workers for organisational toning-up and educating the public on the benefit of life insurance, and enlargement of operation. Industrial welfare is an avowed policy of Indian nationalised industry and this is especially so, because of abject condition of the working masses. The personnel

<sup>1</sup> Annual Report 1960, p. 15.

officer, therefore, should have intimate knowledge of local conditions and in order to promote welfare of the workers he must take a human view of the working conditions of the staff. The remote control and direction passed by the officials ensconced at a distant place often overlook local problems and this contingency has to be corrected by the personnel officer who is said to be the "the management's conscience" and therefore, "it is his duty and responsibility always to keep before the mind of management the consequences for the people they employ of the policies they intend to adopt"<sup>1</sup>. Indian industries should take welfare schemes on the basis of local labour condition and surroundings in which they are put and western ideas of developed economy can be profitably applied in a reasonably modified manner in keeping with the internal condition and local problems. In order to achieve this purpose a sort of decentralisation of management into defined areas is desirable. This point has been emphasised also by Mr. Frank Pickstock as vital to maintain good industrial relations.<sup>2</sup> The matter is yet to be achieved by various means and in measures for achieving industrial democracy and extending to the workers a social status on the conception of, as Prof. Hanson, puts it, the "New Moral World", where the factory workers are to be christened into the faith of being an equal partner with the state in a national enterprise. In this aspect of the matter Prof. Hart on the basis of his observation of "the Mazdoors" of the D. V. C. has lamented, "At the projects, as in other segments of economy, the Industrial Revolution had got ahead of the cultural and social revolutions. No one had invented any way of giving the new careers the warm flesh-and-blood significance of the old."<sup>3</sup> India wedded to the principle of socialistic pattern of society needs a reorientation of outlook for giving social status to the worker to grow up. It is a pity that in the public sector undertaking, the authorities should suffer from a misconception of their duties and obligations towards the employees as illustrated by the recent "unfair" labour practice adopted by the management of the

<sup>1</sup> E. B. Sharp : Op. cit., p. 7.

<sup>2</sup> *British Railways : The Human Problems* p. 12-13.

<sup>3</sup> Op. cit. p. 186.

state-owned steel plant at Rourkela "even violating elementary provisions of the Factories Act", and this disturbing feature has led the Labour Ministry to warn that any public undertaking which would violate labour laws "would be liable to prosecution as much as a recalcitrant private unit"<sup>1</sup>.

### Human relation to be developed

The main emphasis here is upon maintaining good "human relation" through constant effort of the managers of different units of the enterprise. The Board and the Union both have a stupendous responsibility of toning up the spirit of the workers. The Board should never be inclined to create a rift in the integration of the union, culminating in rivalry and faction to echo the management's voice, while on the other hand there should be no imposition of "closed shop" policy by the union to maintain freedom of the Boards in matters of recruitment and national agreement. The "closed shop" policy which is branded as "trade union tyranny" has however gained no ground in India but vigilance should be there against its making headway in trade unionism in India. National agreement, no doubt, binds the Boards and the unions against wide deviation but it has a healthy effect as the unions are saddled with a responsibility of disciplining the members of the unions to abide by the Agreements. In Indian enterprises, examples of discord between the Boards and workers are not absent. In D.V.C. the local units staff have often exploded more against retrenchment than other conditions of employment. But this feature is now on the decrease as the Corporation has been endeavouring to get the retrenched personnel absorbed elsewhere by active joint efforts of the participating Governments and other agencies, and it is reported that till the end of March, 1960 out of 6101 retrenched employees 5247 were provided with "alternative employment with the co-operation of the Central and State Governments as well as industries both in public and private sectors"<sup>2</sup>. It has further been stated with gratification in one of its reports that, "During the year under report, the labour situation was satisfactory and there was no strike or lock out in the Damodar Valley

<sup>1</sup> See *the Statesman*, Calcutta dated Nov. 4, 1960 p. 1.

<sup>2</sup> D. V. C. Annual Report : 1959-60 p. 2.

Corporation”<sup>1</sup>. The relations of field-workers with the L.I.C. have deteriorated a lot recently. General Strike, hunger strike, go-slow policy have expressed themselves. The L. I. C., the largest public corporation in India so far, should find its way to dissolve the discord by persuasion and proper understanding of the problems of the field workers who are certainly the prop of the insurance organisation. The National Federation of Insurance Field-workers have also an undoubted responsibility of resolving the difference with the Board considering the new-fangled ideas of comradeship of workers with the management. The tendency of the Boards of purging out “trouble makers” by selective dismissals, as it has been done by terminating the services of Mr. G. S. Vaish, President of the National Federation of Insurance Field Workers should be discouraged, as the reaction thereof is very keen on the staff.

In I. A. C. a Labour Relations Committee was constituted on 11th May, 1956 as prescribed under Section 41 of the Act, and it is uniformly reported in all years that the activities of the Committee proved helpful “in promoting better understanding between the Management and the Employees” towards solution of a number of problems.<sup>2</sup> The sketchy remark does not, however, provide any satisfactory information to the inquisitive public. With regard to the Air India International it has been reported that “the Labour Relations Committee, set up in February, 1956, “did useful work in promoting amity and good relations between the Management and the employees”. And also, “The long drawn-out negotiations between the Management and the Air Corporations’ Employees Union were satisfactorily concluded this year and the union has accordingly been recognised”<sup>3</sup>. The A.I.I. further records its satisfaction over the settlement on wages and service conditions reached “in a friendly and cordial atmosphere in 1960-61 and hopes that this will usher in an era

<sup>1</sup> D. V. C. Annual Report & Audit Reports 1958-59, April '60 p. 29. But the situation was not reassuring in the next year. Ref. Annual Report for 1959-60 p. 28.

<sup>2</sup> I.A.C. 4th Annual Report 1956-57 p. 25. 5th Annual Report 1957-58 p. 18 and 6th Annual Report 1958-59 pp. 14-15.

<sup>3</sup> All 5th Annual Report 1957-58 p. 12. See also 4th Report 1956-57 p. 16. and 6th Report 1958-59 p. 11.



of industrial peace.”<sup>1</sup> The manner of reporting on labour matters by I.A.C. does not, however, indicate any definiteness of improvement during the last few years. And the Reports seem to be reluctant to disclose the conflicts that were exemplified by the strike of the technical personnel in 1960.

There is, of course, no gainsaying the fact that a team spirit should develop between the Board and the workers in order to achieve the objectives of public ownership. In fact, public ownership should be regarded as “the gateway to a new society” where there is a better deal to the workers and where “co-operation would supplant competition”<sup>2</sup>. And this can be achieved by developing a human relationship between the Board and the lower levels of management, fostering *esprit de corps* among the staff and creating in them a sense of loyalty and mutual interests in developing the national economy.

<sup>1</sup> A. I. I. 8th Annual Report (1960-61) p. 16.

<sup>2</sup> Robson W. A. : *Nationalised Industry and Public Ownership*, 1960 p. 321.

## PART TWO

### *LABOUR'S ROLE IN THE MANAGEMENT*

Trade unionism in the modern world no longer rests content wringing concessions of working conditions and better emoluments for labour. Of late, a conspicuous change of attitude of labour has been noticeable. The new-fangled idea of labour's share in the management is getting root and trade unionism is now endeavouring to wrest a place for labour in the management. In an age of industrial democracy and democratic planning, the traditional role of labour to put in service for remuneration has undergone a radical change. Labour's attitude is now bent towards occupying a recognised and significant position in the undertaking for the common pursuit of the objectives of the enterprise. This changed attitude has been welcomed in private sector also and this must have a larger reception in nationalised industry, because a public enterprise implies definite swing from capitalist economy to socialist economy wherein industrial welfare is an accepted principle. The various means through which labour asserts itself in the management may be mentioned as, (a) works committees, (b) joint consultation, (c) partnership in the management and (d) through workers' control. Democratic socialism, no doubt, urges an honoured place for labour in the management so that a community of purpose and of spirit may pervade throughout the industry to make it a success.

#### **Works committees**

The voice of labour in the industry was first demonstrated in the creation of works committees in which management and labour have got equal representation. In India, Industrial Disputes Act of 1947 has provided for creation of works committees in industries employing 100 or more workers. In fact, in the present set-up, most private industries have got works committees

in which labour has something to do in the limited sphere of industrial relations. It is found that various works committees may exist in an industry, each for specific purpose and with distinct managing body. In India, the works committees, usually perform only social functions.<sup>1</sup> Usually, the scope of a works committee extends to safety, welfare, education, canteen, health etc. A works committee has not only to function within a limited scope and sphere but the ultimate execution of collective agreement is reserved by management and Trade Union has got little voice in enforcing the execution of the agreement upon the managerial authority. In practice, however, there is little conflict on this point inasmuch as the works committees function in rather unimportant and non-technical matters, and the agreement is easily implemented. Be that as it may, labour is never satisfied with a limited and unimportant place in the industry and a pressing demand for better place has become pronounced. It is a matter of gratification that many leading private industries in India have appreciated labour's move in this regard and effective action is being taken. Ideas have been recorded in writing and possible efforts are made to translate the creative thoughts into action. Agreements have been reached between management and labour in many an industry, notable of which is the agreement in Tata Iron & Steel Co., Ltd., entered on 8th January, 1956. The salient features of the agreement are worth noting, as that may impart a profitable guidance to public enterprises. All the functions, both technical and non-technical, including those which were exclusively under the managerial authority, have been given over to be performed by joint committees at different levels.<sup>2</sup> The trade union cry for labour participation in management has no doubt been led a step forward by TISCO and the pioneering move has undoubtedly found expression in a sympathetic fervour in other sizable industries.

It has already been recorded that works committee falls short of labour's expectation for a place in the industry they

<sup>1</sup> *International Labour Review* Vol. LXXXV No. 5, May 1955 p. 480

<sup>2</sup> *The Sunday Statesman* Aug. 5, 1956. See also Govt. of India—India Labour Bureau: *Labour-Management Consultation in Tata Iron & Steel Co. Ltd.*, 1956.

serve and this has led to evolve a newer conception of management labour relations to allow a better place for labour in the form of joint consultation. Joint consultation connotes a far more wide scope of labour's voice in the industry and an effective method of satisfying "the urge for self-expression". Joint consultation owes its origin to the Whitley Committee in the U.K. which was appointed in 1916. The committee recommended the establishment of "Joint Industrial Council." It appears, however, that the Whitley model did not prove to be much successful as the labour strike of 1920 in U.K. indicated. But the trial of Joint Consultation method resulting from the Whitley Committee, however, revived itself in 1941 by a drive given by a top-level committee consisting of the representatives from the Trade Union Congress and the British Employer's Confederation meeting in London with the Minister of Labour as its Chairman. Joint production Committees were set up in the engineering industries under the agreement between the Engineering Employer's Federation and the Engineering Trade Unions in 1941. Joint Consultation is a matter of agreement between the unions and the employers in the private industry, whereas under the nationalisation Acts of Britain, Joint Consultation has been made compulsory.

### Joint Consultation

Joint consultation has been introduced in the nationalised industries because of the following principles implicit in it :

- (a) It is the means to achieve industrial democracy, and an essential aid to good industrial relations.
- (b) Joint consultation implies community of interests of the Board and the workers for the success of nationalised industry.
- (c) Consultative committees are advisory in character, and can effect improvement upon working methods of the industry.
- (d) Joint consultation extends social values to the workers.

It should be noted that in the nationalised industry in U.K. there are (1) joint negotiating machinery and (2) joint machinery

for consultation. The term "negotiation" refers to formal agreements on terms and conditions of employment and wages while joint consultation covers agreements regarding safety health, welfare, training as well as organisation and efficient conduct of the undertaking in the mutual interests of both management and labour. Joint consultation in the nationalised industry has been given an important rôle to the matters of common interests of the Board and the trade unions to ensure "efficiency in the operation of the services of the Board".

In keeping with the pyramid of administrative machinery, the consultative machinery has been set up at all levels—local, regional and national, and in British nationalised industry, joint consultative machinery are found in two forms (i) Joint consultation separate from Negotiation and (ii) Joint consultation combined with Negotiation. A question, therefore, arises whether the functions of negotiation should combine with that of consultation and be vested in one committee or they are to be performed by separate committees. Apprehension has been expressed with regard to combined functions, as the ill-feeling in negotiation may be carried over to consultative committees and thus the feeling of "two sides" may pervade the industry, whereas the combination of two functions has been appreciated to create confidence and maintain solidarity of the union members.<sup>1</sup> But no unqualified admiration can be reserved for any of the two types. The combined functions of negotiation and joint consultation on the one hand avoid multiplicity of work, and guarantee functions to be performed with free understanding from the common membership and areas of conflicts tend to become narrow. But, on the other hand, they unduly burden the members to discharge the onerous functions of both machinery, one's function being influenced by the other's because of the same group of men being involved in both. Whereas, if the two functions were kept apart and separate for being discharged by the different sets of members of the unions, there would be room for conflict, and mutual distrust amongst the members themselves, and sometimes

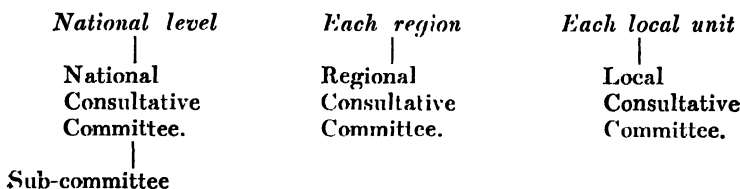
<sup>1</sup> "Personnel Policy in a Public Corporation", in *Journal of Insitute of Personnel Management*, London, 1949 p. 74.

separation of functions tends to duplicate the task for both Committees. The decision is, therefore, not very easy. Negotiation is essentially a matter of trade-unions and it is feared that their position might be undermined if separate committees for negotiation and consultation are set up. It appears, therefore, proper that methods should be adopted both in a centralised and decentralised fashion. Negotiation that implies agreements on wages and working condition at national level calls for a joint consultative machinery centralised at the national level whereas the functions involving safety, welfare, education and efficiency at all levels of the industry undoubtedly fit in the consultative machinery established at different levels of the industry local, regional and national. While a multitude of consultative machinery may be set up at different levels, there must develop a co-operative and co-ordinating spirit to marshal the agenda systematically, and channels should be kept open for communication from the local to top machinery and vice versa i.e., joint consultation must be a "two-way traffic" to ensure efficiency and quick achievement of its objectives. A consultative machinery may, however, have members in common with the negotiating machinery but the procedure laid down and followed for the agencies being separate and distinct, one would not completely identify with the other and distinct entity of a consultative machinery can well be maintained with profit.

In the British nationalised industries Joint consultative machinery are found, combined or uncombined with negotiation. But consultative machinery here, however, consists of three tiers — local, regional and national with sub-committees. Acton Society Trust has shown the following type of joint consultative machinery and composition thereof :<sup>1</sup>

<sup>1</sup> Ibid p. 6.

In nationalised industries Joint consultation separate from Negotiation.



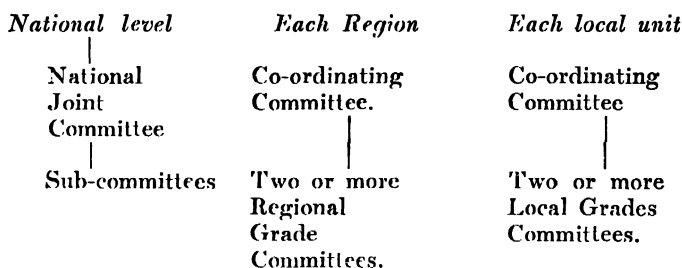
Composition :

Representatives  
appointed by  
Management &  
Trade Unions.

Representatives  
appointed by  
Management &  
Trade Unions.

Representatives  
appointed by  
Management &  
Elected by local  
employees.

Joint consultation combined with negotiation.



Composition being the same as above.

The rules of Chairmanship followed are based on the nature of the machinery i.e. whether consultation is combined with negotiation or not. If they are combined, the Chair is held by both the senior Executive at that level and Trade Union members alternately, and if they are separate, the Chair is usually held by the senior Executive with a Trade Union representative as Vice-Chairman.

In the U.S.A. the method of joint consultation is not similar to that of Britain and there the trade union's attitude is to leave management to go on its way and unless there are palpable factors detrimental to the interests of labour, the Union does not generally intervene. But a sort of consultative machinery is

also working there, which is technically known as "communications"—Union-Management Grievance Committee—working through the channel of the "line Transmission of information". This is almost the same as the works committee in the U. K. In France and the Western Europe, compulsory consultative machinery has been introduced through the institution of "Comités d' Entreprise" that may be termed as "co-determination" which received legal expression in France in 1945. The form has now extended to Holland, Belgium and in its extreme form in West Germany. The Comités d' Entreprise enjoys large powers in managing the social services, and suggesting training, and has the right of access to the aspects of the business to suggest plans.

The shortcomings of works committee have already been pointed out and it is high time that India should have a rapid stride towards more effective role of workers through modern means of industrial democracy. No nationalisation statute in India has, however, provided for joint consultation. Indeed, illiteracy, backward economy, poor personnel management contributed to overshadow the growing consciousness of industrial workers, but in the context of the objectives of nationalised industries in India there is hardly any excuse for the absence of joint consultative machinery in the statutes. The urge for self-expression of labour in industries can only be eloquent in having a machinery for demonstration and that machinery must not be left at the mercy of good counsel of management with undue prerogatives but should be made compulsory by statute following the law and practice in a developed economy. Apparently, the only public corporation that has provided for any labour relations in the body of statute is the Air Corporations in which Section 41<sup>1</sup> provides for setting up of "Labour Relations Committee" to advise the corporation on matters which relate to the welfare of the employees or which are likely to promote and secure amity and good relations between management and labour. But the Labour Relations Committee falls short of the aspects and objectives of a joint consultative machinery. Nonetheless, it is a happy provision towards a better recognition of labour affairs

<sup>1</sup>41st Report of Estimates Committee—Lake Sabha—Ministry of communication 1956-57.



in a nationalised industry. Joint consultation connotes pooling of ideas of management and labour in wider area of both technical and non-technical sides of the undertaking, and an effective device for having a larger say of labour in the enterprise through agreements with management resulting from free understanding, unreserved exchange of ideas, and proper adjustments on both sides. Joint consultation, therefore, presupposes the openness of mind of management and trade unionist, without entertaining the slightest doubt about the sincerity of purpose of each other. To foment suspicion and antagonism in the mind of labour against management is the worst form of trade unionism, and joint consultation can hardly succeed in an atmosphere of suspicion and discord.<sup>1</sup> Trade unionist has a stupendous responsibility in disciplining labour and preparing the ground for effective joint consultation by mutual confidence, and this can be earned by a hearty welcome to labour by the management on the one hand and similar attitude of helpful co-operation extended by labour on the other. Argument may be advanced against joint consultation imposed upon the Board by a codified provision but here the spirit should be judged in its true light and the matter should never be misconstrued, as joint consultation is considered beneficial to both sides and statutory provision must not be felt as a legal imposition only. The partnership of mind should develop, mental reservation should be scrupulously avoided, and management should recognise the rightful place of labour in a nationalised industry, and a community of purpose should foster.

Accepting the principle of joint consultation in a public corporation, its overall aspects should be carefully weighed. Technically speaking, joint consultative machinery is advisory in character, and the management has large prerogatives and its spirit is bound to be damped if the advice of its instrument was rejected by the management too often. The men at the helm of affairs at all levels must have "the spirit and inclination to consult" with men under. With regard to areas of consultation there seem to be diverse opinions amongst the administrators as well as trade unionists. Mr. Palmer, an experienced official of the British Electricity, for instance, advocates areas of consultation confined to matters of mutual interests where conflict is likely

<sup>1</sup>Acton Society Trust : *The Workers' Point of View*. p. 20.

to be absent and concession may be more or less on either side. In matters of wages, salaries and other conditions a clash of interest between management and labour is inevitable and there consultative machinery should make room for negotiating machinery, and trade unions have larger role to play in this matter.<sup>1</sup> On the other hand, some experienced personalities are of the opinion that separate committees are likely to lead to friction, rivalry and mis-understanding as well as demarcation of disputes.<sup>2</sup> The same set of membership is advocated for separate committees. That is, the same people are to deal with matters at each level. The matter can never be dismissed at a stroke as both sets of opinion have cogent arguments in support. It should, however, be borne in mind that joint consultation is a step forward towards collective bargaining and the agreements reached impose responsibility upon both the management and Trade Unions to carry them out.<sup>3</sup> That being so, it is not understandable why separate committees should be set up for different matters when objectives of consultation imply partnership of minds of management and labour. A single joint consultative machinery at each level should, therefore, be given all matters to deal with, otherwise there is likely to be overlapping of functions, encroachment on unspecified areas, and confusion would be worse confounded.

Indian nationalised industry should give a serious consideration in this regard. Trade Unionism is well-nigh developed but rivalry and discord among unions are in no way absent as the recent indignation of I.N.T.U.C. against A.I.T.U.C. demonstrates. Too many committees are likely to complicate matters. Hence it can be suggested to set up joint consultative machinery to deal with all matters comprehensively at each level with channels of communications from top to bottom and vice versa, kept open. In consonance with decentralisation, consultative machinery should start at each level—national, regional and area levels. Provision

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<sup>1</sup> *Joint consultation* : in Robson W. A. (ed) op. cit. p. 137.

<sup>2</sup> *Personnel policy in a Public Corporation* : in *Journal of the Institute of Personnel Management*, London No. 302 March-April 1949.

<sup>3</sup> Cole G. D. H. : *An Introduction to Trade Unionism*, 1953, p. 281.

should be laid down for referring the disputes or disagreements to an appellate body at each level so that ultimate reference to national level may be far less. National Consultative Council should be provided with powers to call for the important agreements reached at different levels and a surveillance is to be maintained on committees so that friendly guidance may be given in case of any disagreement detrimental to the interest of the enterprise, or on any "recorded difference" referred to it by the lower level committees. But guidance from the top-level must not take the form of intervention or imposition from the top, as in that case joint consultation will lose its real meaning. The independence of the three-tier character of joint consultation should be scrupulously maintained for the benefit of both. The central committee should not be loaded with unnecessary burden of work, and at the same time there should be no imposition from the top to create a sense of inferiority in the lower level committees. Care should be taken against centralisation of power at the top level in respect of consultation and the objectives should be decentralisation with full authority to consult and settle matters of mutual interests finally at each level. The suggestion made above for the Indian enterprise to create committees at the different levels with an appellate body may be compared with the arrangement of the Civil Aviation in the U.K. where National joint Council also acts as an appellate authority.

The procedure and structure as evolved by the Tatas in India are also in the form of Joint Committees at different levels with a provision of appeal to the immediate higher body. But the numbers of committees envisaged are far too many including technical committees. Matters of finance, audit, taxation and of confidential nature are kept reserved at the management hands. Public corporation may very well draw guidance from Tatas but the set-up must be much more enlarged to include all sorts of matters of mutual interests including wages, salaries and conditions. A criticism sometimes is levelled against joint consultation that it gives undue importance upon matters of trivial nature sometimes keeping aside more important subjects. This is no doubt a disappointing feature and public corporation should be on the alert not to allow joint consultation to degenerate

into a forum of wasting discussions and unwarranted discord and conflicts.

Trade Union officials are too busy to apply their minds to all matters coming up for consultation, especially those relatively unimportant. The solution lies in having the men of the industry on the committees with a provision that in regard to important matters that require proper understanding and shrewd judgment, Trade Union officials may be allowed to negotiate and consult on labour side. In reference to the Joint Council of Management in the Hindustan Machine Tools Limited, the Estimates Committee has observed, "that the representative of labour on the Joint Council is not an employee of the company. The very object of securing the workers' participation would be defeated by such an arrangement. The committee suggests that in all such cases the workers' representative on the Joint Council should be an employee of the undertaking concerned"<sup>1</sup>. Difficulty is, however, likely to arise in industries where more than one trade unions, obviously rivals, have almost equal command over labour. But once the objectives of joint consultation is understood in its proper sense and viewed in its proper perspective the difficulty is bound to subside. Adjustment is called for between unions and at the present stage ; nomination rather than election is the best method at all levels of consultation. The N.C.B. of the U.K. is quite hopeful about the effective part of Joint Consultation in running the collieries.<sup>2</sup>

Joint Consultation is no doubt a bold conception to make room for a recognised place for labour in the enterprise, and it connotes a compromise between the managerial sovereignty and trade union extremism. The concept is in a nascent state in India but it has undoubtedly made a headway, as in 1950 the Government of India established a Development Committee on Industries in order to assist the Government to secure full production from the existing industries<sup>3</sup>, and this committee at its meeting in 1951 set up a Joint Consultative Board of Industry and Labour "to deal with question relating to rationalisation, retrenchment and other matters falling within the scope of

<sup>1</sup> 94th Report : Lok Sabha 1959-60, para 18.

<sup>2</sup> Robson W. A. : Op. cit. p. 351.

<sup>3</sup> Resolution No. 1(4)—1(147) dated 1st Dec. 1950.

industrial relations." Joint consultation has its place now in cotton textiles, sugar, cement, plantations and steel. The recent scheme of Whitleyism envisaged by the Central Government as a sequel to the recent Central Government employees' Strike which ended in failure, is an illustration of the growing acceptance of the effectiveness of joint consultation. The scheme envisages to set up Whitley Councils "to provide a suitable machinery for consultation and negotiation between the Central Government and its two million employees". A three-tier structure is contemplated. At the base, each Department will have a Whitley Council to settle "purely departmental problems", and at the top "a 21-man National Council which will adjudicate all crucial issues involving principles". In between them there will be regional councils. Every Whitley Council will consist of equal number of elected representatives of the employees and nominees of the Government and will be presided over by a Chairman on mutual acceptance. The decisions would be binding on both sides and in case of disputes, they will be referred to compulsory arbitration. The award of the Board of Arbitration will also be binding<sup>1</sup>. This scheme is an exceedingly welcoming step and is expected to act towards avoiding any deterioration in the relationship of the Government and its employees. Success will nevertheless depend upon mutual understanding, active co-operation and honouring of decision by both sides in scrupulous regard to the scheme. Public corporations have to follow suit and joint consultation must be an effective device for settling and minimising labour disputes and aim at attaining industrial democracy. But joint consultation is no panacea for curing the malaise pervading the industrial society although "it can tremendously assist in reducing incidence of disease." That is why the cry for a far better recognition of labour in the undertaking is often heard. Labour is no longer satisfied with consultation and advisory consultative machinery but aspires for an active participation in formulating policy and its effective materialisation through participation in management.

### **Participation in Management**

Human approach of labour, however, calls for a place far ahead of the area of consultation. "It is impossible to stop at

<sup>1</sup> *The Statesman*, Calcutta dated 15. 10. 60, and dated 7. 12. 60.

joint consultation," observes Prof. G.D.H. Cole, "it is bound to turn either into joint decision of policy by collective agreement or into actual joint management". "The essential difference", he continues, "is that decision by collective agreement leaves the execution of the agreed policies entirely to a managerial authority of which the Trade Unions form no part, whereas joint management would mean that Trade Unions would become participants in executive action as well as in the shaping of policy"<sup>1</sup>. This is, no doubt, the central theme of joint management. The exclusive rights of the management of shaping the destiny of labour through its industrial policy is no longer acquiesced and a voice of complaint is heard against too much concentration of power in the hands of management. Labour has understood that it is the most important component part of production, and finished product is but a congealed form of labour. This consciousness of labour is the motivating force to forge ahead towards partnership in the managerial policy with effective result.

A national enterprise is looked upon by labour as a solace in which its pent-up feeling can find an outlet. The trails of bitterness that are left behind in other methods of assertion of labour's rights are fast fading in the process of evolution of modern methods of joint consultation and joint management. India has been fully alive to the aspect of labour's urge, and schemes are evolved out. A Code of Discipline that applies both to the public and the private sectors has been set forth since the middle of 1958. This Code is an emblem of cordial industrial relations in which both the management and labour have come to a tacit understanding of their constructive co-operation in carrying out development schemes. The Code of Discipline and the Code of Conduct adopted at Nainital Conference in May 1958 have paved the way to a better understanding of the cause of labour and all-round efforts are put in to mitigate labour discontent and unrest. The notable advancement in this line lies in the progressive introduction of the scheme of labour participation in the management. From labour as a worker to labour as a participator in management is no doubt a long step but

<sup>1</sup> *Op. cit.*, p. 281.

happily that has been easily mended and concrete working has already begun.

As a preliminary step, the Ministry of Labour and Employment set up a group of officials, employers and workers in October 1956 in order to make a study of workers' participation in management. This study group visited Paris, Brussels, London, Stockholm, Dusseldorf, Frankfurt, Bonn, Belgrade and Geneva and submitted, on return, a report to the Government of India. This Report was considered by the 15th Session of the Indian Labour Conference held in New Delhi in July 1957, and there was general agreement, in principle, with the basic idea of workers' participation in management. A committee was set up to determine the scheme to be applicable to industries in both the public and the private sectors. The criteria decided by the committee for introducing the scheme are that the undertaking must have a well-established, strong and active workers' union ; it should employ at least 500 workers and it must be one with a good record as regards industrial relations. In the Seminar on Labour Management held at New Delhi on 31st January and 1st February 1958, the Minister for Labour and Employment said that the scheme may become "the most momentous event in the history of industrial relations in the country."<sup>1</sup> In the public sector the Joint Council of Management was first set up in the Hindustan Machine Tools Ltd., Jalahalli on 30th June 1958,<sup>2</sup> The company will consult the council "on all matters relating to the general administration, introduction of new methods of production and manufacture involving redeployment of men and machinery, closure and reduction or cessation of company's operations." The functions of the council have been extended also to other spheres including working and living conditions of workers, training, safety, welfare etc. In fact, the joint council has assumed the character of a full-fledged body for deciding any issue involving the industry. It is complained that "the management as well as the Government take too much paternal attitude to the employees ; they are ready to provide good conditions of work and living but are not quite willing in practice to treat

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<sup>1</sup> I. L. O. New Delhi : *Recent Developments in Certain Aspects of Indian Economy IV* 1959, pp. 26-27.

<sup>2</sup> *The Hindu*, Madras, 1st July 1958.

workers as mature and real partners in the enterprise"<sup>1</sup>. But this is now falsified by the introduction of the scheme, which is indeed a revolution in the concept of labour-management relations. But it is reported that the Joint Management has not been "functioning very successfully", and the Scheme has now been given up after a sad experiment for a short period.<sup>2</sup>

In order to make it a success, the scheme calls for some primary requisites and these are the essentials as on them stands the whole edifice of the joint management. The membership of employees should mainly be confined to workers in the industry though in the initial period experienced trade unionists with technical knowledge may be invited to take seats. Trade Unionists have a stupendous task of educating their members for enabling them to understand their new functions and responsibility as well as obligation in the matter. The workers, whom the staff Association will nominate, are expected to be of equal merit and understanding and adept in discussing and arguing matters with the experienced and shrewd management officials. Here, of course, the responsibility is joint and the purpose is not to wangle concessions by one from the other ; but an altogether different approach is warranted by the scheme. The sense of partnership once imbibed is bound to change the attitude both of management and labour as the oneness of the purpose, that is, the successful sailing of the industry is all-pervasive, and bitterness is bound to go. Labour imbibed with the spirit of joint responsibility is bound to make serious effort to bring about all round improvement to the industry, as otherwise the blame is to be shared by it with the management. Management can also be expected to be relieved of a nagging trade unionism and industrial problems and put its wholehearted effort in the common endeavour in the public interest. Joint management, therefore, implies free understanding between members on both sides. The common tendency of one side to dominate over the other, which is latent in a representative body of different interests, should never get here the upper hand, as it would precipitate a disaster in a far worse manner than hitherto known to industrial disputes.

<sup>1</sup> U. N. Seminar, New Delhi Op. Cit., Paper No. 26, p. 20.

<sup>2</sup> H. M. T. Annual Report 1959-60, p. 14.



It is pertinent to consider whether the time is ripe for extending to the Indian labour a place in management. Trade Union membership in the Board has been discarded and now it remains to be decided whether in order to achieve an orderly collective bargaining, the trade union leaders should be free from any "schizophrenic involvement in managerial functions." Once the joint management is given, labour becomes identified with the enterprise itself and the policy becomes the policy of both management and labour. This feature should in itself create no apprehension. On the contrary, it would demonstrate a cordial and happy industrial relation. But the basic thing remains that in order to make joint management effective, inbreeding of workers' representative is a condition precedent as outside trade unionists' participation, more often than not, introduces a political outlook to labour problems and mars matters. Until such time as the labour is not educated in grasping the real theme of the matter and adequate inbreeding of the workers to represent labour in the management scheme is not achieved, we share the view that "partnership should be tried only at a later stage and at the present stage the relations with the union should be strictly on a collective bargaining basis, for coming to an agreement about the working conditions, wages, welfare facilities etc."<sup>1</sup>

In the U. K., joint management seems not to have made much headway and the tendency of the trade unions appears to equip themselves to widen the range of collective bargaining and to accept the enlarged responsibility which their increased power involves.<sup>2</sup> In France, the scheme has in some cases, gone much further and it has taken the shape of collective management rather than joint management, the aspects of which are dealt with below. In West Germany, the scheme has been introduced but the result is yet to be seen. The public corporations in India can profitably follow the Tools Factory in materialising the accepted principle of human approach to labour by inviting it to hold the steering-wheels of the industry, when the conditions stated above are fulfilled.

<sup>1</sup> U. N. Seminar, Op. cit., Paper No. 26 p. 20.

<sup>2</sup> G. D. H. Cole : Ibid p. 285.

## Workers' Control

Guild Socialist principle of industrial self-government looks ahead of the time when the industries will be administered by workers engaged in it. Collective management is the objective behind this conception. Syndicalism implies the complete control of industry by workers themselves and the concept is akin to modern terminology "workers' control." But a modified version of syndicalism has been pronounced by the leaders led by Mr. G. D. H. Cole, which asserts the organisation of all the workers in the industry in one industrial union with the top managerial and supervisory posts being filled up by election and admitting the participation of the state "through its partnership within an industrial guilds congress." The idea of collective control of industries by workers engaged in the industry directly opposes the Fabian principle of direct control by Government. Both the Fabian and Syndicalist concepts in two extreme forms have been denounced as utterly unsuited to the modern conception of socialisation of industries in which the functions of the state as well as workers have been considered equally important. The Fabian theory is altogether out of date in the modern set-up of socialist economy while on the other hand, the workers have not been given a long rope to do what they may without caring for the State's functions and responsibility in the interest of the nation. Syndicalism has, therefore, gained no favour worth the name.

In the U.K. the conception of "workers' control" prevailed upon the Union of Post Office Workers that pressed to materialise its demand for the conversion of the Post Office into a "Guild" enterprise "under the management of a council representing the various grades of employees with the Post Master General as Chairman." But the proposal did not get support from any quarter and is now mostly a dead-letter issue. The National Union of Mine Workers which once ardently favoured "workers' control" has, since the nationalisation of coal, preferred not to share any responsibility for the conduct of the industry but to press demands upon the N.C.B. in the usual manner like any other ordinary trade union organisation. In no public corporation in the U.K. collective responsibility for management of industry

has gained favour, although a great amount of favour and concession have been wangled by workers and a human approach to labour has become self-evident. Even representation on the Boards of workers' interest has not been favoured in the U.K. following the Morrissonian conception of the Board of public corporations. In France, however, there are factories organised on the basis of a system termed as 'le contrat collectif du travail' under which the workers agree by a collective bargain to produce the goods required at a collective price which they divide among themselves at agreed proportions. The industrial operations are supervised by workers themselves. But this conception of collective control of workers and co-operative method of dealing with products are unknown to the U.K. industries, the reasons of which are not far to seek. Developed trade unionism and modern conception of industrial democracy appear to have an effective check against exploitation of labour by management and hence no direct control of industries by workers themselves has been favoured and the workers' approach here is distinctly different from that in France. Co-operative effort is no doubt advocated in industries but the conception is more akin to joint management than to collective management.

'Workers' control' must mean real thing implied in it. Trade union control of industry falls far short of the conception. "Workers' control, if it is to mean anything real," observes G.D.H. Cole, "must mean control by the actual workers engaged in it, not by outside bodies."<sup>1</sup> Workers' control totally leaves aside the authorities at the top as its beginning necessarily comes from the bottom, under which scheme, the workers unite together to lay down the principles and plan to work them out being imbued by a collective responsibility in the industry. Workers' control may be established at different levels like tiers in the other types of joint consultation and joint management, and these must necessarily act according to central policy envisaged at the national level. The scheme of workers' control can hardly be a success if the workers are not sufficiently well-up in technical training and principles of business management. At the initial period, technical and administrative advice may be sought from experienced trade union officials but it should be borne in mind

<sup>1</sup> Ibid, p. 283.

that workers' control can never be expected to achieve its purpose if much dependence is there on outside source for advice and directions.

The scheme is being experimented in Yugoslavia which has a bolder scheme of "democratisation" of management. In every Yugoslav enterprise there are three organs. The workers' council, the Managing Board, and the Director of the enterprise. The Workers' Council is elected by all the workers and office employees who are of age, by direct and secret vote. The Workers' Council, with a strength of 15 to 60 members, elects the Managing Board, while the Director is nominated by a commission composed, on a party basis, of the representatives of the Workers' Council of the enterprise concerned and of the representatives of the Commune. Thus, "at present outside factors have a fairly significant influence on the selection of the director".<sup>1</sup> The Workers' Council is the top organ of the enterprise. It conducts the economic policy of the enterprise, issues all the fundamental acts of the enterprise, its statute, pay scale, rules on labour relations, protection at work etc. It also conducts the personnel policy in the broad sense. Thus in Yugoslavia Workers' have the supreme control over the enterprise and this system is based on the slogan "factories for the workers and the land for the peasants." In 1950, the Yugoslav Legislature passed the Basic Law on Managements of State Economic Enterprises and Higher Economic Associations by the Workers' Collectives. According to that law, factories, mines, communications, transport and certain other industries are to be managed by Workers' Collectives. Though the system has yet to show its effectiveness and supremacy, it certainly extends a better recognition to the workers where industrial conflicts are expected to be far less.

The Soviet system of one-man management does not exclude the active participation of the working people themselves in industrial management. "The participation of the masses, that is, the non-managerial workers in the administration of industry, is a key Soviet theoretic doctrine"<sup>2</sup>. Mass participation takes four forms—

<sup>1</sup> U. N. Seminar New Delhi Op. cit., Paper No. 63, p. 15.

<sup>2</sup> V. V. Giri : Op. cit., p. 184.

- (i) supervision over the work of management,
- (ii) offering of suggestions through employees' Conferences,
- (iii) performance of administrative task in addition to regular work and
- (iv) serving in managerial capacity.

The mutual obligations of the working collective of the enterprise and the administration are defined every year by the collective contracts concluded between the trade unions and the administration of the enterprise. "Thus a substantial feature in the management of socialist industry is the organic combination of state leadership and responsibility of the management for the work of the enterprises with all round development of the creative initiative of the local bodies and direct participation of the workers and employees in the management of enterprise"<sup>1</sup>. The "Productive actives," composed of a highly select group, always keep the management on the alert and are "the most dreadful critics of the director". Workers in the Soviet system have therefore larger participation than that in a capitalist economy. Nevertheless, the participation is more of advisory character than direct functioning in the management as in Yugoslavia.

In India, no conception of workers' control has gained ground possibly due to many factors involved in a backward economy, including workers' shortcomings in many respects particularly lack of training and efficiency in technical and managerial side. Be that as it may, in the present social and economic background the conception of workers' control can hardly justify its existence. The scheme of workers' control can hardly be successful "where the working classes are illiterate or poorly-educated, unfamiliar with the conditions of industrial employment, and without the support of strong and responsible trade union organisations,"<sup>2</sup> and trade unionists also visualise

<sup>1</sup> U. N. Seminar, New Delhi Op. cit., Paper No. 64, p. 7.

<sup>2</sup> Hanson A. H. : Op. cit. p. 466. Also, Hanson A. H. : *Managerial Problems in Public Enterprise*, New Delhi, 1962, pp. 89-90.

the adverse result that may follow if the scheme be introduced. Considering all aspects of India's position and especially conditions prevailing in the public sector and taking into account the success of labour's participation in management, it appears that joint management as discussed above should be introduced in public corporation, and this will not only prove a distinct improvement of industrial relation but a steady and progressive step towards achieving industrial democracy in its proper sense.

### Better Working Conditions

In the public undertakings in India in which there should be effort progressively to introduce workers' participation, the present need is to offer them a better working condition, higher wages, incentive bonuses, and welfare services. The management, while aiming at improved productivity of the workers with reference to the norms fixed on a correct assessment of internal conditions of the country and average efficiency of domestic labour, should endeavour to satisfy the workers' urge for self-expression through increased facilities of their taking part in the managerial functions immediately after the inbreeding of the workers is sufficiently improved to assert the workers' rights in the enterprise. This in turn calls for management to have an outlook of providing proper scope to the workers to become educated, efficient and make them more knowledgable. In India, there is a growing consciousness on both sides of management and labour about the need for their mutual co-operation and better relations in order to secure industrial peace. Though it is too unmerciful to describe an industrial strife in the public sector, on the lines of the Webbs, as "rebellion," it is nevertheless true that there should be a constant endeavour to keep down industrial conflicts, and to create congenial working conditions in the public enterprise, where the worker can find his solace, comfort and happiness, and this would also act as an example for the private sector for bringing about an over-all industrial amity in the larger interests of the community. The industrial amity is indeed the *sine qua non* of success of an undertaking and we look forward to the day when the workers would glow with a new sensation of social status and a healthy life of prosperity and happiness in the midst of the achievements of the public undertakings in India.

## CHAPTER IX

### *PRICE POLICY*

To lay down the pricing policy in a nationalised industry is extremely difficult. The avowed policy of a nationalised industry in general is to fix cost and price in a fashion as to make neither loss nor profit. But herein lie the difficulties as many a problem involved in the industry might upset the working of price mechanism. Each of the peculiarities of a nationalised industry is a potential factor against determining any hard and fast pricing principle. What are the peculiarities that come up for consideration to this effect? A nationalised industry may be either an undertaking that belonged hitherto to the private sector or it may be a newly set-up State owned industry. The distinction between these two forms is fundamentally important for determining cost and price. A private industry brought under public ownership is saddled with the obligation of paying compensation to the expropriated owners in the shape of interest and capital. This is also an element of cost on which price is to be fixed. But a State undertaking new from its inception has no such obligation and costing here becomes easy and less cumbersome. Secondly, a nationalised undertaking may either be a complete monopoly or a quasi-monopoly, or may run concurrently with the private sector in the same or similar line of business or service. In the case of the former, the industry may function without taking account of competition and only caring for the intrusion of close substitutes but in the latter case the industry must function within the accepted principle of competitive economy to avoid disaster. Thirdly, a state undertaking may either be wholly State financed or may be owned in partnership with indigenous or foreign private capital. Fourthly, the price policy of a nationalised undertaking has an important bearing on the budget and national exchequer unlike a private industry. Lastly, the aim and policy of a

nationalised industry is fundamentally different from that of a private industry where the end is welfare of the people and not private gains.

It seems necessary first of all to find the principle of costing, in general, in nationalised industry. In conformity with the principle of "no profit, no loss", costing in nationalised industry takes into account not only the prime cost but also overhead costs. The overhead costs are inescapable costs and they are comprised of numerous elements of costs, namely, fixed and inescapable costs, escapable costs in the short run but not in the long run, joint costs, indivisible costs, replacement costs, compensation costs and other expansion and replacement costs. Each of the costs enumerated above has got peculiar problems to solve to fit into the price mechanism. Moreover, the inheritance of heterogeneous units of an industry in the process of nationalisation is an obstacle to proper costing. Inheritance of some uneconomic units, for example, some financially tottering pits acquired by the N. C. B. in the U. K. and some life insurance establishments taken over by the Life Insurance Corporation of India, is an upsetting factor in rational costing<sup>1</sup>.

### Costs Elements

Let us examine the incidence of the overhead costs on the pricing of unit of products. Fixed costs denote the capital already applied and the return on it is a sort of rent paid for the capital. But the cost in this respect become definite and specific when compensation is committed to be paid by the Government and when such compensation is to be borne out of the revenue of the industry itself and not out of the national exchequer. Fixed assets are constantly depreciating in value due to wear and tear and some of them may also fall into disuse due to obsolescence and this directly leads to replacement costs of the existing assets. Replacement costs are to be covered by the price of output and as such the price mechanism is also affected by the renewal and replacement costs. Replacement cost directly leads to user costs, which may be escapable immediately but inescapable ultimately, when such replacement becomes imperative

<sup>1</sup> Lewis W. A. : *Overhead Costs* p. 42.



for production to continue.<sup>1</sup> Expansion of an existing plant involves additional investment of capital that may be made out of surpluses by adopting the principle of self-financing or raising finance from sources external to the industry. Expansion involves social cost inasmuch as it is desirable only when the proposed expansion can ensure efficient, advantageous and economic service to the community without additional load on the society in the shape of taxation to meet the working cost of such expanded project if it is unprofitable. This leads to the conception of short run and long run cost that require to be covered by charging price per unit of production or service. In the short-run the expanded plant cannot be expected to yield the revenue that may cover its total costs and in that case it is justifiable in covering the interest charge through the price charge for the output of the existing plant.<sup>2</sup> In deciding upon the expansion of a plant one has got to take account of the opportunity cost which is a necessary element of social accounting. In applying fresh capital towards expansion, therefore, the long-run cost and the social implication thereof need be considered. The additional plant is justifiable only when the plant can work at a decreasing cost. "It may be right to refrain from building an additional plant", observes Mr. Fleming, "if the prospective profit at 'subsequent' prices is substantially below the capital cost, even though prospective profit at 'previous' prices somewhat exceeds the capital cost."<sup>3</sup>

### Joint Costs

A study of the working of a plant and its output is necessary to determine direct cost of a unit of product and elements of joint costs for purposes of allocation between different units of plants in use and products thereof. The difficulty is encountered in determining cost related to the price mechanism when cost cannot be attributed exactly to any particular unit of production or service. In an industry having the attributes of joint production or multi-servicing, joint cost is involved and herein lies the

<sup>1</sup> Lewis W. A. Op. cit. pp. 10-11.

<sup>2</sup> Phelps Brown : *A Course in Applied Economics*, 1953 p. 266.

<sup>3</sup> Meade J. E. and Fleming J. M. *Price and Output Policy of State Enterprises : A Symposium in the Economic Journal*, Dec. 1944 pp. 330-1.

difficulty in the allocation of the costs between different outputs or services. Public utilities are saddled with such elements of joint costs and the experience of Tennessee Valley Authority, a counter-part of the D. V. C., is worth noting for the principle of allocation and costing in the D.V.C. projects. The earlier theories advanced in the case of the T.V.A. was known as "the Equal Charge Theory" which indicated apportionment equally between services, power and navigation. But this is certainly not rational because it ignores the extent of factors of production used *vis-à-vis* the extent of services rendered in different operation, and thus a section of the public gets undue profits at the cost of another. Prof. Bonbright, who forcefully argued in the letter addressed to Shri David Lilienthal on Nov. 30, 1934 in favour of "Equal Charge Theory" revised his position later on by advancing another version known "Incremental Cost Theory", but the later suggestion also did not prevail. The T.V.A. in carrying out the policy of simultaneous development in different directions favourably accepted "The Relative Benefit Theory" as a method of allocating costs and determining the charge. Dr. Morgan, in his letter dated April 6, 1936 addressed to his co-directors, upheld the advantages of this method<sup>1</sup> "to allocate the common cost among the various uses in proportion to the benefit received by each from the common expenditure and to charge to each type of benefit the total cost incurred specifically and solely for that particular use or benefit". But there is enormous difficulty either in attributing the cost directly to any particular product or service, or to assess the exact benefit accruing to it from joint production and the interpretation of "benefit" may be a controversial issue. This theory further involves the danger of being unworkable within a reasonable margin of error due to the absence of a standard of physical and social benefit. Indeed, this theory cannot be applied.

### Allocation of Joint Costs

In fact, joint cost allocation is an extremely difficult task, and there is no basis of measurement that can be convincingly adopted for determining allocation of joint costs. The rough and

<sup>1</sup> Joshep Siren Ransmeier : *The Tennessee Valley Authority*, Chap. XII.

ready method of taking into account direct labour costs or time required for the product for the purpose of allocating expenses is beset with many pitfalls as attributing such costs directly to any unit of production or service is often a difficult proposition. A further concept of the use theory basis of allocating expenses has been advanced to apportion costs by reference to the relative use of a plant and personnel over an area. In Great Britain the use theory allocation has been applied for apportionment of costs of the nationalised telegraph and post office. It appears, however, that in case of multi-purpose projects such as the DVC projects the joint cost allocation should be based on purposes that the project serves. Of the purposes expressed to be attained from the DVC projects, namely, hydro-electricity, irrigation, flood control, navigation and other ancillary indirect social benefits, the order of importance of each purpose as also the relative benefit to the community from the project needs to be taken into consideration. Take for example, if a particular project is used for purposes more of generating power than irrigation and the benefit derived by the public is also in conformity with such purpose, the costs are to be allocated on a reasonable ratio between the purposes according to their order of importance. It will be a colossal mistake to overlook and ignore this aspect of purposes in allocating joint costs and to fix price per unit. The primary and incidental objectives of a project are to be distinguished in order to allocate costs and determine price. Mainly, the D.V.C. projects are to generate power and provide irrigation to the arid and the semi-arid areas of the two States. Now, the difficulties that are beset in allocating joint costs according to the purposes of a project at the present moment and fixing price on such basis may be more pronounced if the consumers' behaviour and capacity to pay are ignored. Cheap power is needed to provide incentives to cottage industries and there will be no fillip unless this aspect is taken into consideration in determining the unit price of electricity. The avowed policy of a State undertaking to develop the under-developed region through the provision of a reasonable amount of external economies of various kinds is bound to suffer if all these factors are not taken into account in allocating costs and in fixing prices. In the first lap of developmental stages, no project is expected to pay its way before passage of some time

during which the project is to fructify. At the initial stage the matter that should receive consideration is to draw revenue by fixing prices at a reasonable level so that the consumers may feel the benefit of the State project and come forward to utilise the benefits at the given price without any duress. Here the proven principle "to charge what the traffic can bear" is decidedly the prudent way of dealing with such matters and proceeding with joint costs allocation and fixing prices. In case of the D.V.C., for example, it will be proper to take an account of the conditions prevailing in the villages and on semi-urban areas that the project is to serve, the type of benefits it will render and the consumers' behaviour in general, and to allocate costs and fix the price in such a way as to provide the requisite incentive to the consumers. This may no doubt lead to the uneconomic working of the project for sometime but that can hardly be avoided for future benefits and the project will gradually turn to be a source of revenue for further developmental plans either by self-financing method or diverting the surplus to other channels for the benefit of the community. But caution is to be exercised in assessing the purpose and allocating costs and fixing price on proper understanding of the entire scheme of the project. A project cannot be allowed to continue in losses for a long time. The demand curve is to be constantly watched and if a slight lowering of price leads to a considerable rise in demand the position should be welcome as the revenue yield in the long run may far exceed the costs and the project will justify its existence. In fact, the D.V.C. authorities should step forward with a clear understanding of the accepted policy of the project and to measure the consumers' capacity and preference before allocating costs and fixing the price.

### DVC : Allocation of Costs

Allocation of expenditure has been provided in the D.V.C. Act<sup>1</sup> and the formula has been laid down as under :—

"The total capital expenditure chargeable to project shall be allocated between the three main objects, namely, irrigation, power and flood control as follows, namely :

<sup>1</sup> Sec. 33 of the D. V. C. Act.

(1) expenditure solely attributable to any of these objects, including a proportionate share of overhead and general charges, shall be charged to that object, and

(2) expenditure common to two or more of the said objects, including a proportionate share of overhead and general charges, shall be allocated to each such objects in proportion to the expenditure which according to the estimate of the Corporation, would have been incurred in constructing a separate structure solely for that object less any amount determined by Clauses (1) in respect of that object."

The above formula of allocation is akin to "Alternative Justifiable Expenditure Theory" of allocation of costs, as adopted later on in the T. V. A., which was held to be equitable by Shri N. V. Gadgil, the then Minister.<sup>1</sup> The DVC authorities have now worked out a formula of allocation of expenditure in slight modification of the above laid-down principle resulting from interpretation of the provisions of the Act rather than overruling the principle enunciated in the Act itself. This formula of allocation of expenditure seems to be a combination of "Alternative Justifiable Expenditure" and "Reservoir Content" Methods of allocation of costs.

In November 1958, the Corporation took a decision in the matter after having considered the statutory provisions and the hydrological data available and the views of the participating Governments. The general principles concluded are as follows<sup>2</sup>:

- (i) the cost of each dam should be allocated separately instead of treating all the four dams together as one integrated system ;
- (ii) the storage capacity available for the three main objects viz. irrigation, power and flood control should be broadly the basis for the allocation ;
- (iii) the cost of the separate structures for each of the three objects should be worked out after determining

<sup>1</sup> *The Constituent Assembly of India (Legislative) Debates* dt. 18. 2. 48 p. 873.

<sup>2</sup> D. V. C. Budget Estimates 1960-61 pp. 36-7.

the height of the individual structure that would be required to provide the storage capacity for that object including the dead storage. The capital cost of the dam may be apportioned in the ratio of the cost of the separate structures for each of the three objects.

The revised ratio adopted by the Corporation on the basis of the above principle in place of the tentative ratios adopted earlier are as follows :—

		Flood Control %	Irrigation %	Power %
Tilaya	..	34	33	33
Konar	..	22	39	39
Maithon	..	32	34	34
Panchet	..	44	28	28

With regard to Power, the ratio of Hydro-electricity to Thermal Power is now 25 : 75 and it is understood that Hydro-electricity is progressively to be reduced so as to bring the respective ratios at 1 : 8.

On the basis of the above principle of allocation of cost the cost of Power per unit KWH ranges between Rs. 4.75 nP to Rs. 5 on the average. The charge rate is uniformly applied to all customers in the "Area of operation" except in some small number of cases where conditions are peculiar in relation to the rest of the other customers. The price is charged as per Tariff Schedule (Revised in January, 1959) which is variable according to the quantum of off-take, usage and cost of coal consumed in the Thermal stations. The margin of net profit is generally between 1.5% and 2% after meeting the interest charge.

Irrigation is one of the objects of the D. V. C. The sale price of irrigation water has, however, been fixed on an ad hoc basis. The supply to the customers is indirect as the D. V. C. under an agreement with the West Bengal Government supplies irrigation water to the Government which in turn supplies water to cultivators in pursuance of the West Bengal Irrigation (Imposition of Water Rate for Damodar Valley Corporation

Water) Act, 1958<sup>1</sup>. The D. V. C. charges for water on a tentative basis are as follows :

### For agriculture

Rs. 10.00 per acre for Kharif crop irrigation.

Rs. 15.00 per acre for Rabi crop irrigation

### For purposes other than agriculture

Re. 0.10 nP per 1000 gallons of water for industrial purposes,

Re. 0.07 nP per 1000 gallons of water for domestic use and a rebate of 10% is allowed on a supply of 20 cusecs of water and 20% for supply over 50 cusecs.

Under the W. B. Irrigation Act the ceiling prices of water supply have been laid down :

For Kharif crop irrigation .. Rs. 12.50 nP per acre

For Rabi crop irrigation .. Rs. 15.00 nP per acre

that are to be charged from cultivators. The rates are fixed year to year.

There is no denying the fact that controversy has arisen over this indirect system of water supply of the D. V. C., and the West Bengal Government and the D. V. C. authorities do not see eye to eye. The difficulty has arisen because of contrary pulls, as the D. V. C. refuses to give up the proprietary right over its irrigation system and the West Bengal Government will be expected to act as its agent for distribution of water, whereas the W. B. Government has been finding increasing difficulty in pushing the supply to the ultimate consumers, and the disputes arise over the area of irrigation on which they do not agree. For example, the D. V. C. estimated an irrigated area of 500,000 acres in 1959 and submitted a bill for Rs. 39 lakhs as water charges to the Government, and as nothing could be realised from the users of D. V. C. water, the entire cost is now a burden on the Government. It is understood, a negotiation is going on for a happy settlement of the matter. The poor off-take of D. V. C. waters is responsible for the anomaly.

The Public Accounts Committee has described the picture of irrigation as "dismal", and has estimated that in 1970-71 when the optimum condition would be reached, there would still be a deficit of Rs. 6 lakhs<sup>1</sup>. It appears that the DVC's larger part of surplus yields from Power are likely to be offset by loss in irrigation and flood control. The Secretary, Works, Mines and Power, in summarising the broad outline of the Damodar Valley Scheme, stated before the Inter-Provincial Conference held on 4th October, 1946 that it seemed unlikely that the scheme would pay its own way and expressed the view that the scheme as a whole would be 25% unproductive.

In the D.V.C. Act allocation of capital expenditure has also been provided as under :<sup>2</sup>

**Re : Irrigation :** The total amount of capital allocated to irrigation shall be shared between the Provincial Governments as follows, namely—

- (1) the Government concerned shall be responsible for capital cost of the works constructed exclusively for irrigation in its province ; and
- (2) the balance of capital cost under irrigation for both the Provinces of Bihar and West Bengal shall be shared by the Provincial Governments in the proportion to their guaranteed annual off-take of water for agricultural purposes.

Provided that the divisible capital cost under this clause shall be provisionally shared between them in accordance with their previously declared intentions regarding their respective guaranteed off-takes and any payments made accordingly shall be adjusted after the determination of the guaranteed off-takes.

**Re : Power :** The total amount of capital allocated to power shall be shared equally between the three Participating Governments.

**Re : Flood Control :** The total amount of capital upto fourteen crores of rupees allocated to flood control shall be shared equally between the Central Government

<sup>1</sup> *The Public Accounts Committee 14th Report (2nd Lok Sabha) 1958-59, Annexure I para 2.*

<sup>2</sup> Secs. 34, 35 and 36 of the D. V. C. Act.



and the Government of West Bengal and any amount in excess thereof shall be liability of the Govt. of West Bengal.

The position of capital expenditure allocation as on 31. 3. 60 is given below<sup>1</sup> :—

	Power	Irrigation	Flood control	Subsidiary Projects	Total
	1	2	3	4	5
Central	26.29	—	7.00	2.38	35.67
West Bengal					
Government	25.64	39.57	11.49	2.32	79.02
Bihar					
Government	25.58	0.33	—	2.32	28.23
Total :	77.51	39.90	18.49	7.02	142.92

The pricing policy of the D. V. C., as it would necessarily be, is under constant revision, and with every development of new issues, the same is liable to revision. The D. V. C. and the Government should evolve a satisfactory solution of price policy in the matter of irrigation as well as aim at slab system of power rates rather than uniformity of rates considering the volume of off-take, usage, peak and off-peak hours, and nature of the customer. Regarding power, the observation made by the World Bank regarding the uneconomic power rate is well worth considering especially in view of the increasing demand for power of the D. V. C., that is much beyond the present installed capacity. The delay in commissioning the Bokaro unit and low reservoir capacity of the Panchet and Maithon Hydel stations have necessitated the D. V. C. to warn consumers that they may have to curtail their off-take of power from the grid towards the end of December<sup>2</sup>. Indeed, power is the only source that can be made to yield surpluses in the D. V. C. to enable it to pay its own way.

A State-owned industry may be either a complete monopoly or a quasi-monopoly. In case of a monopoly industry the scope

<sup>1</sup> D. V. C. *Annual Report and Audit Report* (1959-60) p. 42.

<sup>2</sup> *Statesman, Calcutta*, dated 8. 11. 60.

of profit-maximisation, under certain circumstances, exists but here the basic difference in outlook between a State industry and a private industry should not be overlooked. In a socialist economy a nationalised industry is no doubt considered as a revenue-yielding source but that should not lead to the extent of fleecing the consumers or exploiting labour to earn monopoly profits. Monopoly profits are gained by an industry either by withholding supply if the demand curve is more or less inelastic or by staying at "the limit price" if the demand is elastic. The real check on a monopolist's maximisation of profits is the threat of new entry because if a monopolist's action is directed to restrict output, there is the threat of entry and at the same time if the monopolist charges high prices to maximise profits, the consumers may after some time look to other sources of supply or may fall back on close substitutes<sup>1</sup>. In India, real monopoly does not exist in any field of production as a State-owned industry exists side by side with the private sector, though monopoly exists in the case of some economic activities in private hands since nationalised but no monopoly profit is, however, aimed at. Thus, the Life Insurance Corporation which has the monopoly of life insurance business has the avowed objective of formulating policy for the maximum benefit of the insured public and hence maximisation of profit is ruled out. The recent declaration of the L. I. C.'s life fund surplus and bonus is a healthy aspect of its working. Its policy is further demonstrated at scaling down the rates of premium and new schemes of insurances imparting additional attraction, e.g. Janata Policy Scheme. The baneful impact of private monopoly on income distribution, hired-factor prices, "ideal output" and employment is not only at a discount in a condition of State monopoly but in the latter case, the effect is also healthy all round assuming that the efficiency of the industry is at the maximum and the cost-curve sufficiently low to draw in more consumers and assuring a steady surplus for its extension, and there is an expansion of employment and the shift is from profit to wages which is a necessary condition of socialisation<sup>2</sup>.

<sup>1</sup> Bain J. S. : *Price Theory* p. 218.

<sup>2</sup> Meade : *Production and Price Policy in Public Enterprises* in *Economica* Feb., 1950 p. 328.

### **Costing : The basic factor of Price**

Costing of an output is the prime factor in determining the price and to consider the possible adjustment to attract a reasonable section of consumers for all time and a steady revenue. It may be that the revenue-yield resulting from such price may not pay its way in the short period but the aim should be for long-period recovery of all costs. There must be an expert costing staff in each public enterprise to advise on cost structure of the industry so that necessary adjustments of variables may be done well in time to regulate the output or outputs at reasonable levels, and price mechanism may function within a tolerable range of consumers' capacity to pay. In a consumer goods industry a scientific study of the consumers' preference should merit attention. Otherwise production is likely to behave in a way that may cause glut, wastage and loss. The study of cost structure and consumers' preference are engaging attention of the Government in the private sector and this is equally important in a nationalised industry.<sup>1</sup> In fact, the study of cost curves is also the basic need in a nationalised industry.

### **Rule of Marginal Cost : a restricted application to socialised Industry**

Now, coming to price fixation in a nationalised industry, account should be taken of costs,—marginal costs, average cost and total costs. Which of these costs is to determine price ? The Rule of marginal cost is a well accepted basis of price-fixation. It should be considered how far this Rule can well be fitted in the structure of a State-owned industry. The marginal rule lays down that the buyer of the increment of output is to pay for marginal factor use. Hotelling-Lerner Rule says, "Assuming that the prices of factors and of products are such as to bring demand and supply into equilibrium, an optimal position will result from each enterprise undertaking any changes of input and/or output such that the value of additional outputs less the value of subtractional outputs exceeds the value

<sup>1</sup> Speech of Shri A. K. Roy, Comptroller and Accountant General of India at the Convocation of the Institute of Costs and Works of Accounts of India, on 11. 12. 61.

of additional inputs less the value of substractional inputs." The optimal position thus leads to marginal costs for determining price.

Marginal cost rule in a State undertaking appears to simplify the case as all attention is to be given to changes in cost and in output for the application of the rule. If the plant is working at full capacity the immediate and the ultimate escapable marginal costs coincide. If it works less than its capacity that may be for either of two reasons—because of sloping demand curve or contracting output and supply to draw higher marginal revenue, price equals immediately escapable marginal cost. But if the demand is elastic, necessity may arise to extend the capacity by setting up additional plant rather than restricting output and fixing price higher than marginal cost, and here price covers short run marginal cost and equals immediately escapable marginal costs. The attempt to fix price in the circumstances to cover the immediately and ultimately escapable marginal costs and to have revenue to cover interest and amortisation will invite either new entry or offer fillip for close substitutes. If the State-enterprise is running side by side with private sector in the same industry, the price is based on short-run cost and does not cover amortisation quotas, the effect is the dislodgment of redundant firms.<sup>1</sup> But if the State industry is a monopoly the consideration is not relevant to other firms but units of a single undertaking. The most depressing factor of a nationalised industry, which is perhaps the outcome of the accepted principle that total receipts should cover total costs, lies in ignoring the cost and self-supporting capacity of each individual unit of the enterprise. The demand curve in respect of the area served by each unit cannot be expected to have the same slope and here the necessity arises to put in more fixed assets and factors of production in a unit for extending the capacity and to contract them in another unit. Mr. Meade held the necessity of investment of a greater amount of fixed capital when the unit operates under conditions of "increasing returns."<sup>2</sup> But this was doubted by Mr. Fleming

<sup>1</sup> Lewis W. A. : *Overhead Costs*. p. 18.

<sup>2</sup> Meade & Fleming : *Price and Output Policy of State Enterprise : A Symposium : Economica*, February, '50. p. 323.

who held that the type of socialised industry that Mr. Meade considered was the case where it was not possible "to secure genuine competition between units of optimal size." But while it may be that the additional plant would work under conditions of increasing returns, it is right to refrain from setting up an additional plant if the expected profit at "subsequent" prices is substantially below the capital cost. Under such condition the existing plant may be allowed to work under conditions of diminishing returns that would save factor-prices and ultimately lead to profits. "Prima facie, therefore", observed Mr. Fleming, "in the absence of precise knowledge regarding the demand and cost conditions in the actual industries and undertakings ripe for socialisation, it appears just as likely that socialised undertakings will work under diminishing as under increasing returns."<sup>1</sup> Price based on marginal cost covers factor costs and not interest and amortisation. The position remains the same in case of replacement cost.

Another difficulty lies in the fact that price based on marginal cost leaves indivisible expenses uncovered. The indivisible cost may either be incurred for an individual customer which is technically known as "Customers' Costs" or for the benefit of an array of consumers. The indivisible costs may be also of a specific nature related to a particular part or parts of service or for an extension of the existing service e.g. laying of an electricity main for an area, and this no doubt is akin to replacement or investment cost discussed above. Now, if these indivisible expenses are to be covered by revenue, marginal cost must be higher than average cost to yield profits when price equates marginal cost. Indivisible cost may be covered either out of consumer's surplus or producer's surplus. Consumer's surplus connotes the surplus utility derived by a consumer from the aggregate consumption of units at a given price. The consumer's surplus is more pronounced in an economically developed region and hence a socialised industry or service that serves the regions both economically developed and underdeveloped, a high consumer's surplus in an area may be offset by a fall in consumer's surplus in another at a given price for its products in the entire area. Thus, the necessity

<sup>1</sup> Meade & Fleming : Ibid p. 331.

is felt for price discrimination which aspect is discussed below. Producer's surplus will occur when marginal cost is rising. Marginal cost rises in the event of the application of more of the variable factors when cost rises with more purchases due to inelasticity of supply. If the marginal cost rises either equal to or more than average cost, the surplus yield from price based on marginal cost covers the indivisible costs.

### Price Discrimination

The difficulty is encountered when due to rise in marginal cost, the price rises in such a way that consumers in an area are loath to have the custom and there remains an apprehension of a falling demand curve. In such circumstances price discrimination is put forward as a remedy. Price discrimination implies charging the price on the basis of benefit derived by consumers, that is to say, those to whom utility is greater are to contribute to the indivisible cost. Price discrimination is noticeable in case of transport industry such as rail, road and air traffic between freights for different commodities. Generally, the public resent price discrimination, but when it is attributed to different marginal costs, different standards of service, discrimination usually is not called in question. Price discrimination which are more pronounced in socialised services than industry may take various forms such as discriminating against different types of consumers, discriminating against different areas served, discriminating against different nature of services. Price discrimination, if it is pursued zealously, tends to mulct a section of consumers and subsidise another section at the cost of the former. In nationalised service discrimination is seen to have occurred in respect of public utilities such as transport, gas electricity etc. In the case of a railway track in a sparsely populated area, *e.g.* hill districts, transport costs can hardly be recovered by traffic charge because of low density of traffic. A distant area involves high cost of service that cannot be realised because of absence of consumer's surplus and hence the price cannot be related to marginal cost or immediately escapable cost, and loss is justifiable from the view point of social welfare. The Air Lines Corporation, for example, should be prepared to open up new routes both inland and foreign, even,

if initially, the short-run cost cannot be recovered. The unexplored regions should be opened up with a new outlook for development and social accounting and in such circumstances, blame cannot be put on the venture for the possible loss. Pricing in this place can never rest on marginal cost as the marginal cost in the case of public utilities, which are generally run on the principle of being independent of the number of people served, in a sparsely populated area is bound to be high and deferrent. Consideration here comes up to determine the economic possibilities of such projects. The basic defects in case of public Corporation in India is the lack of guidance with regard to the proper working cost of each unit of a project to determine the efficiency and profitableness of the individual units. It is advocated generally that the accounts of a public corporation should impart the idea to the general public about the cost of each part of the service so as to make possible a comparative study between different units, correlating them with the revenue derived from each unit. In fact, democracy demands such accounts and information to be published so that social cost of an inefficient and uneconomic unit may not be burdensome by its perpetuation. It is discernible that for sometime a part of service may prove to be uneconomic but it is not desirable to let this state of condition to continue for long that total receipts of the undertaking as a whole do not cover total costs. "A service is uneconomical if the discontinuance of that service would reduce total costs of the undertaking more than total receipts ; and it is justified if discontinuance reduces total receipts more than total costs"<sup>1</sup>. What is the remedy in such circumstances ? The principle of "no profit, no loss" will no doubt lead to charging a part of service at a price more than its marginal cost to subsidise another part and thus to keep an equilibrium between costs and receipts. But certainly, this is not a prudent method as consumers' surplus in the former case may be falling and there will be a sloping demand-curve, and costs remaining constant, revenue will be insufficient to cover the immediately escapable costs. If the Board decides to open a unit of service for an area with a consciousness of its remote economic possibilities, presumably from welfare consideration, it does not mean that it can prolong with its a

<sup>1</sup> W. A. Lewis Ibid p. 187.

economic ills for all time to come, as each unit should be considered on its merits in the long run, and if it cannot justify its existence according to the criterion laid down above, its discontinuance will be socially desirable. But before totally winding up the scheme, efforts may be made by applying any other theory to fit in the position.

Price discrimination, which is akin to two-tariff pricing, is one of the solutions. Price discrimination here may take two forms—(i) discriminating against different consumers and (ii) discriminating against volumes of services. In the former case, the principle of “charging what the traffic will bear” is the active principle based on consumers’ preference and capacity to consume and in the latter case the charge will partake of the nature of offering a “block” quantity of initial consumption at a rate and progressively lower rates on each higher slab of consumption. This acts as an incentive to consume and the over-all yield may ultimately cover the marginal cost given a high propensity to consume and factor cost remaining constant or the project working under conditions of decreasing cost. Nevertheless, in the case of extension of service the idea of covering interest and amortisation including indivisible expenses, that is argued above, becomes relevant. The rule of marginal cost equating price is, therefore, inadequate to serve the purpose.

Nevertheless, marginal cost rule appears to be the dominant principle under three conditions—(i) when the nationalised undertaking runs in competition with private industry, (2) when it is run more on the welfare motive than to make break-even and (3) when the condition of an industry is ripe for socialisation and it is directly or indirectly connected with the developmental plans. In the first case if the price does not equate marginal cost and is fixed on some other basis, the shift of consumption will be from nationalised to private industry which will, in general, *ceteris paribus*, prove to equate price with marginal cost to draw in the hesitant consumers. Given the elasticity of demand, price here cannot exceed the marginal cost to cover only the immediately escapable cost. This necessarily brings about an optimal position. This optimal position equating demand and supply prevents pricing higher than marginal cost without losing a part of consumers. Strictly speaking, a state enterprise



working in a competitive economy cannot turn its eyes from other institutions' activities because when the factors of different plants are substitutable or complementary, any variation of output or input can hardly be done without considering the existing conditions of the other plants as well as the possible reaction on them, that is likely to work out by such variation.<sup>1</sup> In the circumstance, therefore, pricing based on marginal cost asserts itself. In the second case, welfare being the dominantly determinant factor of a supply or service, the price can never exceed marginal cost ; on the other hand, pricing for some part of service may be less than marginal cost and is subsidised from profits made on others services. Extension of service to a region where immediate economic return is negative tends to diversify the activities in that region at the expense of other regions because apart from population growth in that sparsely populated area, location is siezed upon for new economic ventures, assuring an over-all development in the long run. Thus, initially welfare service cannot but charge less than marginal cost and in order to cover the immediately escapable cost after lapse of a reasonable period, price must equate marginal cost. Objections in this respect are more conjectural than real. The social cost is generally taken account of inasmuch as the subsidisation of a section of the community may act harshly on another resulting from charging high prices where the demand is inelasteic, or by overall taxation measure. It sounds reasonable that after the lapse of a period if the project does not fructify it should be considered a social waste. Nevertheless our argument in favour of charging at the initial stage below marginal cost holds good. In nationalised industries the principle generally followed is that each part of the enterprise must be self-supporting. In fact, a unit of service cannot be allowed to continue if it does not turn out either profitable or can pay its way after some time. In the last case, an enterprise that is directly or indirectly related to other undertakings towards developmental plans has a definite function to perform. The steel industry , such as, Hindusthan Steel Ltd., a State undertaking, supplies the basic material for setting up of other important and ancillary industries that are reckoned

<sup>1</sup> Mercus Fleming : *Production & Price Policy in Public Enterprises* in *Economica* Feb. '50, p. 3.

essential for developmental projects, cannot charge a price higher than marginal cost. Apart from the fact the steel industry is not the monopoly of the Govt. of India and exists along with the private sector, about which the argument advanced in the first case, for charging price based on marginal cost, will apply, the fact remains that in case of supply of a basic material that is to be fabricated for further products, the factor cost becomes high if price is above the marginal cost as a result of which the developmental plans are bound to suffer. The factor cost which is immediately escapable or inescapable will enter into the prime cost and pricing. Therefore, it is the utmost need for a basic material to be supplied at a price equating with marginal cost.

### Uniformity of Charge

But the basic principle remains that a nationalised enterprise should sail along "on an even financial keel." That is to say, it makes neither a surplus nor a loss, taking one year with another. The principle of "no profits, no loss" was evolved by the Fabians in connection with the municipal trading and this still holds the ground. Efficiency of an enterprise is usually judged by its returns and in this case when total receipts cover total costs usually there is no grumble against a nationalised enterprise. But some authorities, like Prof. Lewis, Sir Arthur Street, put emphasis on the efficiency of each part of the socialised supply or service which should also have the aim of achieving the principle of break-even in order to justify its existence and continuity. In this context, pricing must relate to relative costs and the charging of uniform price is usually discarded, as Prof. Lewis observes "uniformity of charges where there is no uniformity of cost is the refuge of lazy mind."<sup>1</sup> But it should not be lost sight of that when relative costs cannot be attributed to a part of service, uniformity of charges is the only solution. Take for example, in postal service, no relative cost for a letter carried to different places can be precisely determined and hence the charge is the same within the territorial limit of a country. Neither is it justifiable that

<sup>1</sup> Lewis W. A. : *Price Policy of Public Corporation*—Pol. Quarterly April-June 1950. Ed. Robson "Problems of Nationalised Industry" p. 193.

relative costs can well be fitted in the principle for all jobs. For example, in a hilly region where transport cost is likely to be more than that in the plains, relative cost will go to make an unusually high charge that will deter the users of the track from using it unless forced by circumstances. Hence, the principle of relative costs has got little force here. Nevertheless, in an industry where relative cost is more or less determinable, pricing should be based on it so that the enterprise as a whole as well as any part thereof can pay its way. Only in this sense, we can agree with Prof. Robson when he writes "we must reject the notion that there is something "democratic" about charging uniform prices for goods or services which are provided at differential costs."<sup>1</sup> Otherwise the uniformity of charge is a great virtue not only from the point of view of economics of administration but in allaying the apprehension of the public being mulcted under different conditions. Uniform pricing against unequal costs is also a process of market mechanism otherwise there is bound to be resentment by the consumers who tend to feel the agony of an undesirable price discrimination. In a nationalised industry where statutory obligation is to make each part of supply or service run on its own feet, uniformity of price in certain fields is discarded. Take for example, the N. C. B. laid down the objectives of policy—"to average revenue and income over an indefinite period of years in an attempt to make the structure of prices conform to consumers' preferences; and to discriminate against foreign consumers when the world price was above the internal British price" and there was no reference either to the law of demand and supply or the marginal cost.<sup>2</sup>

### Relative Cost

In fact, the prime consideration remains to equate total receipts with total costs, which is possible only when marginal cost is equal to average cost; but generally it is not, and hence marginal cost, as discussed above, involves subsidisation of the decreasing cost industries from the profits of increasing cost

<sup>1</sup> Robson W. A. : Problems of Nationalised Industry p. 338.

<sup>2</sup> Haynes William Warren : *Nationalisation in Practice : The British Coal Industry* p. 353.

industries or from other sources.<sup>1</sup> Mr. C. A. R. Crosland upholds the marginal cost principle and goes to argue that if some plants were operating at a loss at such prices and only a part of fixed costs is covered, it is advisable to abandon it in the long run and in the short run if no fixed cost and a part of variable costs are covered.<sup>2</sup> But it appears that Mr. Crosland refers only to a nationalised industry run along with a private industry where no variable factor inputs/outputs can be manipulated to the favour of the undertaking, and marginal cost is the only determinant of price. The attitude of a socialised industry or service is, however, certainly not speculative and once a project is ventured upon it cannot be totally abandoned even if the price cannot cover variable costs and fixed costs for some time without a social loss. It is to be borne in mind that a commercial loss of a socialised industry is a social gain if it supplies or serves a substantial section of the community who have the requisite capacity and propensity to consume. The advantages derived from socialisation lie in different fields : (i) it opens up new opportunities of investment and utilisation of resources, (ii) it tends to economise the use of scarce labour, (iii) it extends to reduce unemployment and the shift of income is from profits to wages. It is, therefore, necessary to distinguish short run and long run cost of a socialised industry and in such circumstances it might be run at a loss without social accounting for it, and in certain circumstances a profit is welcome. But as we shall see later these conditions operate either initially or for a short-run period during which the general principle refuses to operate to bring about an equilibrium between demand and supply, between costs and receipts. This state of affairs is but a passing phase after which the operative principle will be relative costs for price fixing.

Prof. Lewis has advanced a few circumstances in which the principle of "no profit, no loss" may be inoperative.<sup>3</sup> In the

<sup>1</sup> Ref. J. E. Meade : *Price and Output Policy of State Enterprise* in *The Economic Journal* Dec., '44 p. 330-1.

<sup>2</sup> C. A. R. Crosland : *Prices and Costs in Nationalised undertaking—Oxford Economic Papers*, New Series Jan., '50.

<sup>3</sup> *Ibid*, pp. 182-88.

case of an industry, since nationalised, where there is compensation cost which may be either equal to the assets acquired, or more, or less than the worth of the assets, if the price is pitched high enough to cover the high interest charge, it will have a restrictive effect on consumption, and a gradual change of consumption pattern cannot be ruled out and this is an irreparable loss to the public enterprises. In such circumstances, there may be disparity between costs and receipts. Similar is the case when price is determined with a view to redeeming capital debts. It is desirable that capital debts should be liquidated to make the process of nationalisation complete but if this view gets an upper hand for a short-run period, there is every apprehension of market being lost to the enterprise for its bad policy, inasmuch as taxing of the consumers in this fashion is bound to cause resentment. Subvention from the exchequer seem to be the only remedy in the first phase of public ownership. The loss is argued for in cases of an adverse change in the industry either by process of invention, opening up of new lines of investment, affecting the existing industry or changing the consumers' behaviour, in cases where productivity is less than the workers' wage from the point of social justice, in case where inflationary tendency is to be kept in check and where discrimination between consumers is a necessity from socialistic ideal. But the conditions under which there may be either loss or profit, making the ordinary principle of no surplus, no deficit ineffective, are but short-lived as in the long run the principle must assert itself for the successful working of a nationalised industry. In the first phase of development of public ownership, it cannot be expected of an industry to earn sufficient return to have surplus over average cost excluding interest and amortisation. The fiscal policy in such circumstance has a definite role to play as the stock-holders are assured of payment of interest and debts within a limited time during which it may not be possible for the undertaking to earn sufficient returns. In Great Britain, for example, the N.C.B. had to acquire many uneconomic pits, the working of which should rather have been abandoned but nevertheless the Board was saddled with the obligation of paying compensation to the expropriated interest-holders and thus the loss had got to be

made up by the contribution from the national exchequer. Similar is the case with L. I. C. in respect of paying the original owners the agreed compensation from the Government Treasury.

In the case of composite supply, e.g. gas and electricity, rail and road transport, it is imperative to take into account consumers' preference. Consumers' choice may be canalised in favour of a supply or service provided the factor cost is kept sufficiently low and consequential pricing can act as an incentive. It is sometimes argued that the price should approximate the cost and the consumers should be left free in their choice. Freedom of choice is no doubt a healthy economic condition. But it will be erroneous to leave the decision always to the buyer and the necessity may arise sometimes to push one supply or service in preference to the other, for example, for some particular area road transport may be pushed through in preference to rail. In such circumstances pricing may follow in one case on short run marginal cost and in case of another on long-run marginal cost. Gas and electricity pricing generally follows the principle of long run cost and not short run cost but transport does not follow suit and here the pricing is short-run cost, admittedly, however, on the principle of "charging what the traffic shall bear" or more technically, "not charging what the traffic will not bear". Further, in case of gas and electricity, customers' cost is a necessary element but not so in transport as no precise allocation of costs in this respect is possible. But transport can take into account the seasonal peak and can offer "block" discount according to the distance travelled by the passenger traffic and this will tend to increase passenger-load and make possible the yield of larger revenue to cover the indivisible expenses and long run cost including interest on investment or replacement cost resulting from the extra pressure on the existing carriage. But this peak consumption cannot be precisely located in the case of gas and electricity in absence of any barometer to record this correctly to the consumption hours, for example, day peak and evening peak are not precisely distinguishable except within an area of reasonable error. This may be one of the attributes of adoption of the two-part tariff without mulcting the consumers of off-

peak hours. The implication of the two-part tariff is discussed below.

### **Two-part Tariff : Means to cover overhead costs**

It is an accepted policy at present to charge price not only to cover the marginal cost but also the overhead costs. The great exponents in this regards are Mr. Coase and Prof. Lewis. Coase argues, that in an ideal tariff total receipts should equal total costs. Price equating marginal cost cannot cover the total cost unless the marginal cost equals the average cost and "in the case of an enterprise in which average costs fall with increases in output and in which consequently average costs are greater than the marginal costs, the proceeds from paying a price equal to marginal cost are less than the total costs"<sup>1</sup>. The buyer may be asked to contribute to overhead costs in two ways, by a fixed charge, and charging unit prices. This is a concept of the two-part tariff. The two-part tariff implies a charge to be paid to get the access to the benefit of the service and price per unit of supply or services. The two-part or multi-part (implying discrimination against different types of consumers) is a device to charge a fixed rent for the use of the service or supply that does not vary directly with the volume of consumption. This two-part tariff is more pronounced where technical necessity makes room for a single plant to operate.

In telephone system, for example, a fixed rental is charged and unit price per call ; similarly in electricity, where the system operates most successfully. The benefits that are generally derived by this principle are an assured return undisturbed by any variation of factor inputs/outputs, and periodical fluctuations in demand. This is also considered a scientific way of allocating cost and throwing a part of the inescapable costs upon the consumers. The two-part tariff is usually applicable to a plant where technical consideration necessitates plants and lines to be set up at a distance from the operating spot and the maintenance of line is essential for the service. The initial

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<sup>1</sup> R. H. Coase : *Price and Output Policy of State Enterprises*. in *Economic Journal* April '45 p. 112.

cost and maintenance costs are both ultimately inescapable for extension of service and as such they have got to be recovered by means of charge to the consumers and the two-part tariff appears to be the best solution to earn a steady return not varying with the number of units consumed and also charging for actual consumption.

Admitting the two-part tariff as one of the convincing ways to recover the inescapable costs in the long run period, it remains to decide about the basis of charging the two-part tariff and its possible effect on the consumers. The cyclical fluctuations of demand create peak and off-peak consumption. Now, this change may occur at some hours of the day, or may be seasonal. Peak demand has extra pressure on the productive capacity and here the industry, other conditions being equal, operates under the condition of decreasing cost and hence margin of return is reassuring. But to what extent a plant can act up to the excess demand during the peak period? The excess demand can hardly be met, if the plants already operate at the optimum position, unless a new plant is set up and that involves further inescapable and escapable costs. Now, if the price is charged to the marginal cost incurred in the peak period it is too high whereas it is far less during off-peak hours and this is unhealthy as all the costs have to be allocated to the peak and none of it to the off-peak, that will in turn reflect on unit price. It is therefore argued that effort is called for to keep the peaks within reasonable units. "In quoting a price, therefore," observes Prof. Lewis, "the undertaking must have its eye on future possibilities, and not just on present circumstances, and must try to find a means between a price so high that the load remains altogether undeveloped, and a price so low that a peak emerges at any rate until such time as the next change in prices becomes feasible".<sup>1</sup> It has already been shown that in D.V.C. power-rate is uniform as per Tariff schedule. But the Corporation could consider also the feasibility of charging differential rates to different customers on the basis of the quantum of off-take and also on peak or off-peak hours consumption so that the difference

<sup>1</sup> Lewis W. A. : Overhead costs p. 50.



in the off-take throughout the period of operations is narrowed. But the proposition of keeping the peaks within limit depends more upon consumers' behaviour than suppliers' adjustments. Say, for example, in electricity the peak hours which were originally diurnal have of late changed to evening and night hours due to industrial operations, the consumption is shifted and the load is certainly heavier in the latter hours than the former. Be that as it may, the fact remains that the costs should be recovered.

A few methods have been put forward, and one of them is to have a fixed charge proportionate to the highest rate of consumption and a charge per unit of consumption ; another to charge uniform rate and allow discount on slab system, and the other is to charge differently during peak and off-peak hours. The first method proposed by Dr. John Hopkins<sup>1</sup> suffers from defects that the maximum rate of consumption of a consumer is indeterminable during a short run period and it ignores allocations of costs or the principle of fixing price according to the marginal rule. The second case sounds more rational as it may be determined according to the variation of the original cost in accordance with rate of consumption but the success of it is dependent upon two conditions ; firstly, the buyer must tie himself to the undertaking for a reasonable period and secondly, there must be a contract for a minimum consumption of supply. The third case is more pronounced in transport system e.g., season tickets at concessional rates and rateably reduced rate charge during off-peak hours, as the Calcutta Tramways Co., Ltd., in pre-war days was charging less fare for travel during noon hours than morning and evening, and was charging at concessional rates for the whole day travel during Sundays and holidays. This is also rational inasmuch as the less charge can be attributed to the marginal cost ratio which is small during the off-peak hours because in these hours running cost of carriage is far less and depreciation cost is small, as the operation is less frequent. It is, therefore, imperative to charge the two-tariff

<sup>1</sup> Original Paper, Vol. I, p. 261.

relative to costs and not arbitrarily. The two conditions laid down above are the conditions precedent to the successful working of the two-part tariff. But the danger lurks in the fact that the fastening of consumers with a particular enterprise and a restrictive condition imposed on the consumer run counter to the spirit of private enterprise where freedom of choice of the consumers is more a dominant factor to influence demand. Hence competitive private enterprise demands costs to be recovered through unit price rather than through any fixed charge and this is possible by adjustment of the variable factors. It appears that the consumers behave differently with the same terms of offer. In the Gas undertaking in Great Britain, for example, a large number of consumers could not be definite in their option in favour either of a two-part tariff or a single variable charge. In fact, unless there is elasticity of demand the consumers derive little benefit from the two-part tariff. The two-part tariff should be adopted in the case of power supply from D.V.C. projects. The D.V.C. entering into contract with the Calcutta Electric Supply Co., Ltd., for the electrification of urban areas can have both the necessary conditions satisfied. That is to say, the contract is likely to subsist for a reasonable period and also the minimum quantity of consumption assured.

But in many cases where these conditions are absent and the two-part tariff is inapplicable, there is no alternative but to cover overhead costs through unit price. This is generally dependent upon the quantity of output and the price charged for that. A public enterprise acting as a discriminating monopoly can have ample opportunities to regulate the supply to fashion the demand of the consumers when it is inelastic. A second form of charging unit price is a kind of consumption-incentive by offering supply at differential rates for different quantities. This is multipart pricing and has the advantage to recover the cost when demand is elastic. By the use of monopoly power, therefore, a public enterprise has the advantage of charging overheads through unit price but not so when it runs within the frame of competitive economy in which case the two-part tariff is the remedy.

## Factors Governing price

A nationalised industry has, unlike a private industry, the added obligation in many ways in determining a price. Mainly they are—

(i) The price must not be determined high or low enough for the inflationary or deflationary spiral to set in. Any deficit will be inflationary when the Corporation puts money into circulation by paying wages and for materials more than it takes money out of circulation by charging less, and thus causing the deficit. The deficit in a particular Corporation may be offset by the surplus in another but as this may not always be achieved the Minister of Finance has to fight the inflation out by taxation measure. But there are cases where initial losses are admitted, as discussed above.

(ii) Price must be determined to expand the employment-base. The socialistic ideal ensures a fair deal to labour as well as enlargement of employment by lessening involuntary and disguised unemployment. The disguised unemployment is a social waste and a potential danger to the welfare ideal. How price mechanism can be a remedy then? Price policy, if it is aimed at equating costs and receipts or making a sizeable surplus, can well adjust wages to profits and broaden employment and economise scarce labour. It involves a shift of income from profits to wages.

(iii) Price mechanism can make a redistribution of income possible and a public corporation should also take into consideration the fact of possible effect on redistribution of income. Redistribution of income is worked by diverting the consumption pattern from one channel to the other due to consumers' preference.

(iv) Price mechanism must not provide scope for the emergence of close substitutes which tends to defeat the very purpose of socialisation.

(v) Price should adequately safeguard the interest of consumers for whom the supply is intended. A socialist pattern of society should have an enlightened price policy which should aim at a reasonable return on the capital investment and "passing

on the benefit of 'the increased efficiency and lower cost of production to the consumer.'<sup>1</sup>

A public enterprise running on the principle of "no profit, no loss" is an institution where self-financing will play its part fully. Any surplus should be ploughed back to the undertaking for its expansion both lateraliy and vertically. The break-even is the test of management efficiency of a public enterprise and this is important because a public corporation must not be a burden on the Exchequer except for the initial start and a limited time thereafter. The subsequent development must result from the surplus earned from the undertaking itself. The emphasis laid upon the efficient working of each part of the enterprise should also receive 'active consideration of the Board.'<sup>2</sup> But we have seen that in the cases where the primary motive is welfare, why initial deficit should be a welcome measure. But this cannot however be allowed to continue. The cost of each part of supply or service should be known and published for public knowledge and measure of efficiency.

Expansion of an economic undertaking by utilising surpluses is now a well-accepted financing scheme. Prof. Galbraith, the well-known U.S. economist, is reported to be in favour of the expansion of public enterprises in India and he holds that the efficiency of a public undertaking can best be judged by its ability to have sizable production at low cost and selling them at a remunerative price so as to have a surplus.<sup>1</sup> But should a public corporation be given unlimited freedom of imposing a forced saving on the community for its expansion? Certainly not. A public corporation should also, like its private counterpart, set a limit to the withholding of part of profits for expansionary measure. The fund of the Corporation is tacked to the enterprise itself, and diversion of funds from this source for any other purpose, not allied to the undertaking, is not generally allowed by statute. It is, therefore, suggested that the motive of a public undertaking should not be so narrow as to

<sup>1</sup> S. T. Raja : U. N. Seminar New Delhi, Op. cit. Paper No. 14 p. 5.

<sup>2</sup> Lewis W. A. in Robson W. A. op. cit. p. 190.

<sup>3</sup> The Statesman, Calcutta, June 11, 1959.

utilise its surpluses only for its expansion but to throw a part of it to the common pool or national exchequer to be utilised for other economic purposes for a balanced national development. Statutes may need amendments to this effect.

The profits made by an undertaking are no doubt the yardstick of its efficiency but it must be guarded that it is not achieved by either exploiting the workers or fleecing the consumers. In protecting the interest of labour trade unions have much to do and the Board cannot but concede to the ideals of welfare before determining any wage rate that may be considered unsatisfactory. The consumers have got remedy in having their cases with the Price Tribunal which should be set up either for a large public corporation like the L.I.C., the D.V.C. and the Airlines Corporations. The Railway Rates Tribunal functioning in the Indian railways since 1921 (in the present form) has been found to be of great value to the consumers, as for example, the Tribunal was able to secure justice in many cases and the relief cases amounted to 60% of the total, excluding those withdrawn.<sup>1</sup> The existence of the Rates Tribunal has also a salutary effect on the corporations' arbitrary action as that might evoke protests from the consumers and become a subject for decision by the Tribunal, the Tribunal should have the power to scrutinise the cost structure and to advise on the pricing policy of the enterprise.

Apart from the institutions from the consumers' side, it is necessary to organise a committee to go through the cost structures of different public corporations and advise measures for improvement so that price mechanism may be adjusted to the cost structure and at the same time protect the consumers' interest. In this regard the recent proposal of establishing a third parliamentary committee for public enterprises can play a definite role, by setting up a sub-committee thereunder exclusively to deal with costs and price aspects. This will also act as a sort of parliamentary control with regard to the pricing policy of a public enterprise and this has a healthy effect upon the Boards as well as the consuming public.

<sup>1</sup> Amba Prasad : *The Railway Rates Tribunal in Indian Journal of Public Administration*, January-March, 1955 p. 92.

Besides above, the commissions should be set up periodically to examine thoroughly the costs and pricing policy of the public corporations and after having obtained the views from the consumers organisations and chambers of commerce and other interested institutions it should pronounce its decisions. This is certainly important and the effect is well demonstrated in the recommendations of the Mudaliar Committee in the railways, which has envisaged a number of changes in the freight structures and the working of the Railway Rates Tribunal. It is pertinent to note the recommendation of the said committee with regard to the manning of the Rates Tribunal that "there must be men with knowledge or experience of trade and commerce and that it should not be over-weighted with persons of judicial or legal experience".<sup>1</sup> Indeed, periodic surveys should be followed in the public enterprises to ensure a balanced judgement on cost and price from commercial point of view. The danger however lurks in the surreptitious encroachment on the corporate freedom of the corporation by the decisions of the Rates Tribunal. In order to allay this apprehension it is suggested for the Tribunal to communicate its views to the Parliamentary Committee which would properly weigh the arguments advanced by both sides and finally deal it with the undertaking. In cases where the decisions substantially alter the character of the pricing policy, it must be communicated to the Minister who is responsible for formulating and guiding the policy of the Board, to take a final decision on it. In this connection it is pertinent to note that the Select Committee on Nationalised Industry<sup>1</sup> in the U.K. has observed that "it is clear that the Minister could not give a directive which conflicted with the statutory requirements of the Boards....In particular he could not, by directive, influence the general level of tariffs...the legal position appears to be that the Boards are entitled to refuse any suggestion or request on tariffs made to them by a Minister"<sup>2</sup>. Certainly, the Board should be given full prerogative in deciding on its own price policy and the correct procedure

<sup>1</sup> Report of the Freight Structure Enquiry Committee 1955-57 para 286.

<sup>1</sup> Reports and Accounts.

<sup>2</sup> Report, Paper 304 HMSO Oct. 1957, para 14 p. vii.

should be to formulate the policy by joint decision of the Board and the Ministry. There must be a co-ordination between action of the Tribunal and the Parliamentary Committee. The two committees<sup>1</sup> appointed by the Air Lines Corporation go to show their effectiveness. A number of changes are likely to occur in the organisation and pricing policy of I.A.C. in future following the Wheatcoat Committee recommendations.

Pricing policy of a public enterprise in India has got to make great adjustments against the conditions of underdeveloped economy. Pricing relative to the costs advocated by Coase<sup>2</sup> and uniformity of charge advocated by him and Prof. Lerner<sup>3</sup> as well as some Indian economists<sup>4</sup> cannot be a concluding factor in the conditions of Indian economy due to the different consumers' behaviour, necessity of the undeveloped regions to be served, low national income and traditional consumption patterns. It is therefore, necessary to incorporate, price differentials, the two-part tariff and low cost advantages by different public corporations to provide consumption incentive and achieving the socialistic ideals. In Air Lines, for example, there should be fare differentials, classification of service as suggested by the Lall Council.<sup>5</sup> The Advisory Committee was in favour of further increase in freight, and plan for new route pattern is being carried out. The Airlines should also provide cheap insurance for the travellers, tourist travelling at concessional rates, and increase passenger traffic by low fare charge to attract the unprivileged air traveller. The initial losses should be made good by subsequent adjustments as to the costs and efficient management when the Corporation comes to stay.

Public Corporations in India, however, cannot blindly follow the policy adopted in the more developed economy like Great Britain and the U.S.A. where cost-price relativity is a dominant factor, but have to step forward in formulating the pricing policy after weighing the country's economic situation and the sensitiveness of the consumers with an ultimate aim to do the greatest

<sup>1</sup> Rajadhyaksha Com. and the Wheatcoat Com.

<sup>2</sup> The Marginal Cost controversy : *Economica* Aug/46 p. 172.

<sup>3</sup> *Economics of Control* p. 45-50.

<sup>4</sup> Dr. N. Das : Article in *the Statesman*, February '59.

<sup>5</sup> *Report on IAC : Fares and Freight Rates, 1957.*

good to the greatest number of people. In the initial stages, price may contain a subsidy element for obvious reasons but tax-element should be avoided to maintain the objective of benefiting the consumers. While there should be a broad pricing policy for all public undertakings which should be framed aiming at reasonable profit without exploitation of the consumers or burdening the Exchequer for losses, the policy may need modification according to the nature of the undertaking for its application to maintain a balance between the Government monetary policy, the Boards' over-all responsibility and the consumers' interests, as commercial consideration cannot do justice in all cases.



#### **Criteria of Efficiency**

The criteria of efficiency of a public enterprise are different from those of a private undertaking. In a private industry the extent of profit indicates its efficiency. Profit is no doubt an important yardstick of efficiency of an enterprise, and a private industry which is run with profit-motive certainly puts all emphasis on profit as the strongest criterion of its success, and shareholders also count on this standard. "Private investment is only held justifiable on business principles if in the foreseeable future there are reasonable prospects of a fair rate of return on the capital invested therein. Public investment, on the other hand, while not shunning profits, would move in whatever the social benefit/social cost ratio justified it"<sup>1</sup>. In order to measure efficiency, however, profits should be looked upon from two different angles. Whether profits are earned by an industry enjoying monopoly or quasimonopoly position or whether they are achieved in a competitive industry? Certainly this condition is an important factor that should receive consideration. A public enterprise is never run on profit motive but with the motive of supplying low-cost products and services to the community. In the case of a monopoly, profits can be earned by deliberate distortion in the output to influence demand and fixing price accordingly, which is, however, not possible in a competitive industry. Here the profit criterion certainly counteracts the standard of efficiency as in this condition the result is an outcome not so much of the efficient conduct of the enterprise as of the position it enjoys in this respective

<sup>1</sup> Lakdawala D. T. : *Contribution of Public Enterprise in the Indian Economic Journal* Vol. VII. No. 4, April '60 p. 395.

field. Nevertheless, the amount of profit earned is one of the strongest factors in judging the efficiency of an enterprise. But to make it a sole criterion is certainly wrong as some other factors involved in the enterprise should also receive consideration along with profit to measure the efficiency of an enterprise.

### Profits: Not a Conclusive Yardstick

A public enterprise may emerge either from the nationalisation of a private-owned industry or from the state venturing into a new field of economic activity that may either run side by side with their counterparts in the private sector or may be conducted solely by the state. A public enterprise may be brought into existence in the fields of industry, trade or commerce as well as in public utility services. The objective as well as method of running different kinds of enterprises is different and efficiency should be judged from this point of view. An industry may yield profits and profit earning may be a strong yardstick for its efficiency; but this is not applicable in the case of a public utility undertaking which has got to satisfy the demand of the public to provide low-cost service. A public enterprise in an underdeveloped country cannot however eschew profits as that would mean shutting up of a source of revenue to the Treasury which in turn will affect development programme of a young democracy. It is, therefore, necessary to examine the advisability and the extent of surplus yield in a public enterprise. When a private industry is nationalised a comparison is possible between the two periods before and after the vesting date. The comparison is not, however, unqualified as with nationalisation some changes in the policy, outlook and method of management are bound to occur and these changes defy a fair comparison. The "Herbert" Report on the British Electricity Supply Industry asserts that "when measuring the improvement one must have some idea of the starting point"<sup>1</sup>. Critics are always inclined to make a comparative analysis of the two periods, and if the post-nationalisation profits of an industry do not compare favourably with those of pre-

<sup>1</sup> *The Report of the Committee of Inquiry into the Electricity Supply Industry*, January 1956, H. M. S. O. Cmd 9672 Para 25.

nationalisation period, the State enterprise is bound to come under criticism. But a hasty impression based on dwindling profits must not overshadow other conspicuous attainments which might also draw admiration for efficiency. A transport business, for example, which was exploiting the profitable areas under the private management may, on nationalisation, extend its services to the unexploited, sparsely populated and apparently unprofitable regions in the larger interests of the nation and here the success of the industry will be measured not by the immediate earning of profits but on the basis of prudent management for potential yield. Comparison in this particular field with the past result cannot provide an acceptable efficiency-index. Similarly, comparison is vitiated if the conditions of the two periods of the industry are substantially different. For instance, in its pre-nationalisation state, if the industry was functioning under competitive conditions in the spheres of its activity and after nationalisation direct or indirect advantages are enjoyed in capital, labour, marketing etc. there can be little comparative analysis between the two periods. Efficiency of a nationalised undertaking should, therefore, be judged in the light of the circumstances in which it is functioning. If a public industry is run side by side with a competitive industry in the same field without any advantage or facility of any sort from the Government, and there is a maximum utilisation of men and resources involved in it, the outturn and surpluses are indicative of the efficient conduct of the enterprise as a whole and here a comparison may be made with the private industry, although with some modification in the light of the principles and objectives of the industry on both sides.

### **Break-even Test**

The yardstick of efficiency of a public enterprise is certainly a problem. A common principle is that a public corporation should neither make a profit nor incur a loss, that is, its combined revenues should be just sufficient to meet its combined outgoings taking one year with another. This break-even test may not be achieved so precisely in practice and some variation is possible. The principle of break-even, however, connotes that a public enterprise should not in general aim at earning large

surpluses and if market condition allows such earning for some time, price-structure should be lowered to the benefit of the consumers rather than arresting production and volume of output. The lowering of the price level as a result of surplus yield in a public enterprise undoubtedly demonstrates its efficiency. But the programmes of development undertaken by India undoubtedly require a vast capital outlay and public enterprise should increasingly contribute its share to the financing of the programmes. Taking this point in view, it can safely be argued that India should aim at earning surpluses from public enterprise for the economic development of the country. But the concept of surpluses should not be extended too far. The Board should never be too much engrossed with a feeling that 'profit' is the be-all and end-all of a public enterprise and its success will be judged by it, though normally the enterprise should show reasonable profits<sup>1</sup>. The measure of success—in one undertaking is bound to have some influence on another in the similar line of activities. But the efficiency under such condition should not be judged by overlooking the particular circumstances, advantageous or disadvantageous as the case may be, in which the two enterprises are carried on. The method of comparison between different units in the same organisation, between plant and plant, region and region is important<sup>2</sup> but it should be made cautiously and after taking all factors into consideration. So far as the zonal divisions of the L. I. C. are concerned it has been argued that these divisions are for the benefit of the Corporation in the matter of achieving the targets. "It is true," said Shri B. R. Bhagat, "that some Zones are ahead and others are behind. But that is a healthy competition"<sup>3</sup>. Competition between different units located at different centres no doubt sometimes provides a life-force in the administration but competition must be healthy and not mutually recriminatory to ensure an over-all success of the undertaking. But in order to judge the efficiency of the enterprise unit-wise,

<sup>1</sup> Robson W. A. : *Nationalised Industry and Public Ownership* p. 413.

<sup>2</sup> *Rangoon Report Op. cit.* p. 64.

<sup>3</sup> *Lok Sabha Debates* Vol XV No. 46 April, 15 '58 Col. 9907.

the local circumstances, consumers' behaviour and other contributory or detracting factors must not be overlooked.

It is, however, agreed on all hands that profits in a public sector undertaking must not be the result of exploitation. Exploitative prices can be charged in the case of a monopoly where apprehension of close substitutes is less. In case of a monopolistic undertaking the criteria of efficiency are different from those in competitive enterprise. If it is possible to shift the impact of high cost of operation to the pockets of the consumers there is hardly any efficiency worth the name. The apprehension of parliamentary probing often tempts the authorities to fix high prices to cover cost and the result is exploitation of the consumers. A public enterprise should, however, maintain the idea that its efficiency lies in achieving surpluses. The surpluses are dependent on the cost of running an enterprise. Cost-structure has, therefore, to be maintained at a reasonable level so that any rising cost may not tempt the Board of the Corporation to follow a high-price policy which will be tantamount to fleecing the consumers, and this should never be the tendency of the Board "in preference to the hard road through improved efficiency and economy of manpower and other resources."<sup>1</sup> The criterion of surplus should not, therefore, play a dominant role to determine efficiency of a public corporation. Some enterprises, on the other hand, will not yield any profit during the initial stages of their operation, and will take some time for their construction before they can gear to full operation. In such circumstances the enterprises are bound to take time to fructify. This aspect also militates against the profit criterion of efficiency. Here efficiency can only be judged with reference to the judicious application of men and resources in keeping with the time-schedule and cost-estimates.

Though adherence to the time-schedule and cost estimates is one of the important criteria of efficiency, it is likely to be foiled by inaccurate budget estimates. If the estimates are revised every now and then, the efficiency of operation of the undertaking can hardly be gauged. The glaring instance is the

<sup>1</sup> P. Sargent and Gilbert Walker in Robson W. A. *Ed. Op. cit.* p. 207.

D.V.C. in which the original estimated cost of the project was Rs. 55 crores and by subsequent revisions from time to time, the latest estimated cost is to the tune of Rs. 170 crores and the capital expenditure upto June 1960 stands at Rs. 141.03 crores.<sup>1</sup> This faulty estimate indicates lack of farsightedness as to the possible variation in cost of factors to be applied in the undertaking including wage structure and cost of capital goods and other accessories. In such cases it is very difficult to judge the efficiency of the Corporation. Another defective estimate has been revealed in the case of steel plants at the three sites at Rourkela, Durgapur and Bhilai. The original total estimate was Rs. 353 crores and that has been revised, and the revised estimate is Rs. 439 Crores, that is, the estimate has been raised within a short period to the extent of 25% while the foreign exchange component increased from Rs. 228.5 crores to Rs. 292 crores i.e. by about 28% (excluding Rs. 38 crores of foreign exchange component of the cost of ancillaries).<sup>2</sup>

The time schedule is also another measure of efficiency. It is expected that a public undertaking will adhere to the time-schedule according to prior planning of the project. But there are difficulties however, which appear to be mainly for two reasons. Firstly, dearth of technical skill is a great hindrance as was experienced by the D.V.C. More than two years elapsed before it could find a Chief Engineer and that also was possible only after an assiduous search and it was also confessed that the Chief Engineer that could be appointed was not the best under the circumstances as no other foreigners responded to the offer or demanded much higher remuneration which the D.V.C. could not afford to pay. Secondly, due to non-availability of capital goods in time and delayed imports the target dates in the D.V.C. for construction of various dams have been constantly revised and extended.<sup>3</sup> No doubt there were some intervening difficulties that necessitated changing of target dates and the schedule. Nevertheless, the authorities should have adhered to the time-schedule. The Corporation authorities are however not

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<sup>1</sup> D.V.C. Monthly Statistical Handbook, August 1960 p. 33.

<sup>2</sup> The Estimates Committee Report 33rd Report paras 50-56.

<sup>3</sup> D.V.C. Annual Report 1956-57 p. 3.

responsible for the weakness of imagination in the estimate of the project but keeping to the time-schedule is their prime responsibility. Similarly, the Airlines also had to encounter initial difficulties, and suffered for want of supplies of Jet Engines and Viking Aircraft, and Boeing is much later addition to the fleet. But the problem was more keenly felt with regard to the Pilots. The A.I.I. reported that "The shortage of pilots has been the cause of particular concern to the Corporation. Since the nationalisation of all air transport operation in the country, the only two sources from which the Corporation can draw its flying personnel are its sister Corporation and the Indian Air Force. The Indian Airlines Corporation have themselves suffered from a shortage of pilots and have, as a result, not been able to keep to the schedule of releases of their pilots to this Corporation."<sup>1</sup> And pilot strength in IAC is still lower than required.<sup>2</sup> An underdeveloped country has to face many obstacles that stand in the way of keeping to the time-schedule, and efficiency suffers. It is, however, happy to note that the Hindustan Steel Ltd., has been more or less successful to keep to the time-schedule and Durgapur's first plant was put into operation in time. Experience shows that given adequate finance, capital goods, and technical hands and managerial ability the country can rise to the occasion to complete the onerous task well within time. Nonetheless, during the stages of initial operations proper adherence to the time schedule and cost estimates indicates efficiency of the corporation.

### Factors involved

As the efficiency of a public enterprise cannot be measured by the earning of surpluses in majority of cases for one reason or the other, other factors are to be taken into consideration to judge the efficiency. For example, in the D.V.C. project, the object of flood control is but a public utility service and can yield no return, while irrigation at least in the initial stage of release of waters can hardly expect to pay its way and in consideration of the distressed condition of the cultivators who constitute the consumers, the water rates has had to be kept at a

<sup>1</sup> Air India International *3rd Annual Report 1955-56* p. 12.

<sup>2</sup> IAC, *8th Annual Report (1960-61)* p. 7.

concession level in the wider public interest. In fact, it has been estimated that it will not yield any surplus for many years to come.<sup>1</sup>

To determine efficiency the following factors *inter alia* are important :—

(1) *Lay-out of the Scheme :*

This is by far the most important as it lays the foundation of the enterprise on which it is based and the whole operation is to this scheme-pattern, and efficiency depends upon the successful layout of the scheme. For instance, when a corporation has undertaken to develop many projects and has got to operate simultaneously at different sites or to work on different projects, it is necessary to prepare the scheme of timing of each project according to convenience, favourable condition and priority. Not only a broad pattern of lay-out is necessary, but details of the proposed operation and how to carry them out are also necessary in laying out the scheme efficiently. The D.V.C. has acted prudently in separating designing from construction.<sup>2</sup> It is no doubt necessary to have a co-ordination between designing and construction but in order to maintain efficiency and prompt execution separation of the two is important as in his report to the D.V.C., Dr. Morgan, ex-Chairman of the T.V.A. observed, “your engineers should be so independent of your builders that they can handle the issues which arise, fully independently and without any financial bias. Especially where foreign relations are concerned and where diplomatic considerations enter into making contracts, it has been customary in some cases for a single firm both to supply engineering service and to have contracts for construction. This, I do not believe, leaves those for whom the work is being done with adequate protection”<sup>3</sup> But this protection by way of separating designing from construction is likely to be largely impaired and offset if the Corporation has to yield to one or the other Consulting Engineers and Contractors’s insistence on engaging some Contractors of their group or in pact with them, as the case had been with the D.V.C.,

<sup>1</sup> See ante p. 453.

<sup>2</sup> D.V.C. Annual Report 1948-49 p. 7.

<sup>3</sup> Quoted in D.V.C. Annual Report 1948-49 p. 8.



when it had perforce to yield to the intention of the Consulting Engineers, the International General Electric Company for designing Steam Power Station to get Kuljian Corporation to work with them for the other part of the D.V.C.<sup>1</sup> Thus, a large portion of freedom of action of the D.V.C. and its bargaining strength were stifled. The D.V.C., however, maintains that "it had much to gain and nothing to lose by appointing the Kuljian Corporation as its Consulting Engineer."<sup>2</sup> But the matter cannot be so easily read from the surface and it appears the D.V.C. had but to yield for reason of the two parties' willing co-operation to carry out the project. To determine priority of operations is a difficult task but success depends upon this to a large extent, as an orderly development of a project requires proper planning with priorities definitely determined. A public corporation has to carry out project in both far and near regions and in the fitness of things it is necessary to proceed in an orderly way to operate at sites where there are communication facilities, and factors of production are available easily and marketability of goods is more or less easy. The initial experience can be profitably applied for further operations in another unit of the undertaking. In the D.V.C. the Bokaro was taken up first and the other dams almost simultaneously, and Maithon which was commenced almost with other dams is still incomplete. Nevertheless, the plan of the D.V.C. has the prudence and credit of an equal force having been applied to all projects so that some are not left untouched while others are being completed. The present problem of the D.V.C. is to complete Thermal stations as early as possible at Bokaro and Maithon so that the storage capacity may go up to meet the extra demand. In fact a prudent planning of priorities can immensely build the projects in an orderly way of development on an emphasis of the need of the different areas.

*(ii) Choice of Personnel :*

The success of an enterprise depends much on proper choice of personnel to carry out the project both on technical and non-technical sides. In this age of technological development proper choice of technical personnel is particularly important. The

<sup>1</sup> D.V.C. Annual Report 1948-49 p. 13.

<sup>2</sup> D.V.C. Ibid p. 13.

Government of India have already realised this problem and have enunciated the policy of providing best service conditions and emoluments to the scientific and engineering staff. An under-developed country suffers greatly from dearth of technical know-how and it is a bounden responsibility for the State to provide every incentive to the technical personnel. In the initial stages however, the country has, of necessity, to rely upon foreign engineers and technical know-how to carry out the first phase of development schemes. In the matter of appointment, however, the authorities should always keep in mind the number of personnel to be engaged in the undertaking so that some particular groups of employees are not disproportionately high as the case appears to be in Sindri Fertilisers where in 1957 out of about 8000 total employees over 5000 were "non-technical and non-supervisory", that is, unskilled "mazdoor" type of workers. If the supervisory staff is disproportionately high the matter will certainly evoke criticism. It appears that in the L.I.C. the administration is becoming top-heavy as the following figures of staff position with monthly salaries will show :

	<i>(Thousands of rupees)</i>							
	1958		1959		1960		1961	
	December, No.	Gross salary	December, No.	Gross salary	December, No.	Gross salary	December, No.	Gross salary
Class : I	1	2	3	4	5	6	7	8
Officers	1432	12.21	1479	12.82	1852	15.16	2162	17.77
Field Officers	4830	15.27	5188	17.53	5808	19.71	7128	23.92
Supervisory & C'erial Staff	22994	47.64	24652	50.68	26706	54.90	28625	63.51
Sub-ordinate Staff	5544	5.49	6022	5.85	5878	6.05	5933	6.94
Total :	34800	80.61	37341	86.88	40244	95.82	43848	112.14

The above figures definitely demonstrate that the L.I.C. has raised the top-posts disproportionately larger than the field workers. It is not understood why the L.I.C. has been bent towards making the administration top-heavy<sup>1</sup>. No doubt the business of the Corporation has substantially gone up, as the following figures may show :—

<sup>1</sup> Annual Report for 1961 (Statement 3 of Appendix V p. 42)..

Business in force :<sup>1</sup>

(No. of Policies in lakhs, sum assured which includes bonuses, in crores of rupees)

<i>In India</i>			<i>Outside India</i>		<i>Total</i>	
<i>No. of Policies</i>	<i>Sum</i>		<i>No. of Policies</i>	<i>Sum</i>	<i>No. of Policies</i>	<i>Sum</i>
	<i>Assured</i>			<i>Assured</i>		<i>Assured</i>
1957	54.18	1374	2.65	99	56.83	1473
1958	59.74	1584	2.60	98	62.34	1682
1959	66.73	1855	2.56	103	69.29	1958
1960	74.56	2176	2.57	109	77.13	2285
1961	83.36	2623	2.41	114	85.77	2737

But the increased trend of business would call for more field workers than top executive staff, which would, of course, increase but within reasonable limits.<sup>2</sup> The L.I.C. should consider this aspect to avoid accusation of top-heavy administration. It is gratifying to note that I.A.C. staff strength has not increased disproportionately in 1959-60 to that of 1958-59, and in fact in the department of Operations and General Administration the staff strength has been reduced in 1960-61 from 776 to 767 and from 619 to 606 respectively.<sup>3</sup> In Air India, of course, the staff strength has increased from 4821 in 1960 to 5487 in 1961 due to fresh recruitments to meet the requirements of the Boeing operations and extension of the service to the U.S.A.<sup>4</sup>

It is also happy to note that the Rehabilitation Finance Administration has taken a practical view of the matter in progressively reducing the number of personnel which is illustrated by the following figures<sup>5</sup> :—

Dec.	'54	'55	'56	'57	'58	'59
Officers	12	9	6	5	5	5
Supervisor	103	99	52	40	31	27
Clerical	261	250	224	233	221	223
Subordinate (including Part-time)	105	91	78	67	67	59
Total :	481	449	360	345	324	314

<sup>1</sup> L.I.C. Annual Report, 1961 p. 3.

<sup>2</sup> The Estimate Committee 134th Report (1960-61) Second Lok Sabha, para 26.

<sup>3</sup> Eighth Annual Report 1960-61 p. 10.

<sup>4</sup> A.I. 8th Annual Report (1960-61) p. 15.

<sup>5</sup> R.F.A. 10th Report for the year ended 31.12.58 p. 5.

This is no doubt a very practical approach to the matter as the activities of the R.F.A. have ceased. "The main activity of the Rehabilitation Finance Administration viz. lending money to displaced persons," states the Estimates Committee, "has naturally recorded a sharp decline during the last three years i.e. 1956, 1957 and 1958.. The Committee are of the opinion that since in future the Administration will mainly be occupied with the servicing and recovery of loans for which it takes help from the Collectors as well as the Settlement Commissioners, Government should consider whether the continued existence of such a big organisation is necessary".<sup>1</sup> And the Administration has been placed in liquidation at the close of accounts ending 30th June, 1960.

A public corporation running on business principle should always have commercial consideration in appointing the staff and increase in the staff strength should be made very cautiously bearing in mind that dismissal of surplus staff in future is not so easy as to make appointments for various reasons, and appointment of temporary staff is "not conducive" to efficient working.

### (iii) *Cost Reduction*

Efficiency depends on the one hand upon reduction of cost, and vigilance to avoid waste on the other. Cost reduction method presupposes some basic concept of cost already in vogue in the organisation which would supply the yardstick of cost of production per unit or service. A nationalised industry is to run on business principle and as such it would be expected to earn surplus to contribute to the national revenue. In order to earn profits a public enterprise should, therefore, follow methods similar to that of a private enterprise. As shown in the pricing chapter, cost of factors of production may vary by the interaction of demand and supply, and a basic cost structure determined in the industry for production per unit or 100 units is subject to variation according to the costs of factors of production applied!

<sup>1</sup> 95th Report (2nd Lok Sabha) 1959-60 para 27.

in the industry. The cost-structure may remain constant for sometime or may increase or decrease according to the cost of variable factors of production. But how cost can be estimated in an industry? It requires scientific study of operations and also application of costing methods in detail and with reasonable accuracy. Cost can be reduced by buying the factors of production in a competitive market as well as by avoiding over-employment of factors of production. If there is any over-employment, cost can be reduced firstly, either by reduction of a number of staff or by slashing of pay-bills, of which the former is the easier method and it would evoke little criticism, and secondly, by reducing waste and loss resulting from neglect and carelessness. Efficiency is reflected on the investments in the fields where the returns register a percentage of capital investment or on the returns registering larger percentage of the turnover. In either case, it denotes efficiency. In a public enterprise a constant effort is to be made to devise ways to keep the cost at a low level to serve the consumers' interest, and to bring welfare to the nation. The Indian airlines reveal that in internal services carried on by the Indian Airlines Corporation, there had been substantial losses for all years and profits were earned for the first time in 1959-60 while in external air services carried on by the Air India International, substantial profits are registered in all the years. No doubt it is true, as the Estimates Committee held it, that the employees of the firms previously operating the services had to be absorbed at a high remuneration which had burdened the Air Corporations with larger supervisory staff and overhead costs.<sup>1</sup> Nevertheless, there is scope for reducing cost of operations, as the picture for the earlier years shows rise of cost per ton-mile which was Rs. 1.76 in 1956-57, Rs. 1.81 in 1957-58 and Rs. 1.83 in 1958-59. But in 1959-60 it reduced to Rs. 1.75 as against increase of the revenue per ton-mile from Rs. 1.65 in 1958-59 to Rs. 1.76. It is argued that the heavy incidence and impact of petrol tax on aviation which counts about 12% of gross income is a heavy item of operating cost. This fact is certainly disturbing. The Government should, at least during the initial stages of operation, grant

<sup>1</sup> cf. *The trouble experienced by BOAC, London with 3000 redundant engineering employees.*

some concession in the levy on petrol and should not consider the Airlines Corporation as a source of revenue out of aviation fuel tax. It has been shown by the Indian Airlines Corporation that it had to pay Rs. 124 lakhs and Rs. 1.31 lakhs as customs duty in 1958-59 and 1959-60, respectively. In the Report for 1957-58 it is stated that "the increase in expenditure was mainly due to the introduction of costlier aircraft and enhanced customs duty on petrol, and, also to normal increments to the staff and the effect of recent Award of the National Tribunal"<sup>1</sup>. Reduction of cost of operation is a vital necessity in the case of internal services and reduction in petrol tax can substantially help the position.<sup>2</sup> In the U.S.A., the industry could avoid difficulty due to four main reasons—technological innovation and improved aircraft, State patronisation in the matter of finance and tax concessions, workers' co-operation by larger output and policy of commercial method of operation. Technological improvement in aircraft industry is an utmost necessity for making the industry strong enough to compete with foreign lines but in case of India it is hard to achieve this as the industry is still dependent largely on foreign countries and in this connection the apprehension expressed by the A.I.I. is worth considering. The Report says, "As, however, pure jet and turbo-prop aircraft are introduced by competing airlines on other routes, the Corporation must expect increasing competition and a progressive loss of revenue from next year onwards unless it places modern aircraft in operation on its routes"<sup>3</sup>. This is no doubt a disturbing feature. Nevertheless, the external services are quite satisfactory and the country can compare favourably with its foreign counterparts such as B.O.A.C. and the K.L.M.

In the case of the D.V.C. the Estimates Committee remarked that there was excess staff and the cost of operation is high,<sup>4</sup> which observation, of course, was not countersigned by the

<sup>1</sup> I.A.C. 5th Annual Report 1957-58 pp. 13-15.

<sup>2</sup> A four-anna rebate is suggested which may save about Rs. 25 lakhs per year.

<sup>3</sup> A.I.I. Annual Report, 1958-59 p. 11 and Also Report, 1960-61 p. 17.

<sup>4</sup> 5th Report.

D.V.C. Enquiry Committee (Rau Committee). While all necessary efforts should be made towards reduction of cost, it is also necessary to avoid waste in all respects. The Public Accounts Committee seriously criticised the Damodar Valley Corporation's expenditure on 35 boats at a cost of Rs. 66,950, which purchase was not so necessary.<sup>1</sup> In this connection the Comptroller and Auditor General had pointed out that the T.V.A. had 2 or 3 boats and India's river projects have relatively larger number of boats and steam lanches. In the Lok Sabha it was pointed out that upto the middle of September, 1958 the total number of boats purchased by the D.V.C. was 44 at a cost of Rs. 1,25,601 on which repairing cost of Rs. 19000 was incurred, and no tenders were called for this purchase.<sup>2</sup> This expenditure could have been avoided by the D.V.C. and the money could be applied for some productive purposes. In fact, many avoidable expenditures were incurred by the public undertakings in India which feature certainly does not denote efficiency, neither does this serve the consumers' interest.

Operating statistics are of great importance to measure and judge managerial performance, and cost accounting is essential. In order to have a sound cost structure, it is necessary to take all factors into consideration including the condition under which the enterprise is run. The Hindustan Antibiotics Ltd. has determined a standard cost per 400 units and the practical result of the working shows little variation from this cost standard. Cost structure, if computed on the high side, would certainly tend to provide a false satisfaction if the working result conforms to this standard, and this is obviously wrong. In order to have a standard cost structure and a comparative view of the result achieved, a sound cost accounting organisation is necessary apart from the internal cost accounting system as prevailing in the A.I.I. and the D.V.C. The Government of India have now accepted the principle that cost should be introduced in all state undertakings.<sup>3</sup> This will certainly contribute to the efficiency of the enterprises. But operating costs may sometimes shoot up due to factors over which the

<sup>1</sup> P.A.C. Report 1958-59 para 138.

<sup>2</sup> Lok Sabha Debates Vol. XXI No. 35 dt. 27.9.58 Cols 8800-1.

<sup>3</sup> Lok Sabha Debates Vol. XIV No. 40 dt. 7.4.58 Col. 8541.

corporation has no control and this feature should not be overlooked in judging efficiency.<sup>1</sup>

(iv) *Performance and Profitability*

It has already been shown that though profit is not the be-all and end-all of a public enterprise, nevertheless, it is a strong criterion of efficiency, and the avowed objective being the earning of surplus by a public undertaking in India as in a private commercial enterprise, earning of the public corporation provides an important yardstick. But profit yielding takes time and it is not achieved immediately after the inception of the project. Hence, it would be too early to say anything about the profitability of the public corporations in India, where the institution itself is still in its infancy. Still, achievements of some corporations are worth noting.

**The L. I. C.**

The Life Insurance Corporation of India is certainly a surplus earning nationalised undertaking which will be revealed from the following figures<sup>2</sup> :—

<i>At the end of the Year</i>	<i>Total Life Fund</i>	(In crores of Rs.)
		<i>Total Business in force in India</i>
1955	353	1128
1956	Figures not compiled	Figures not compiled
1957	410	1374
1958	448	1581
1959	495	1855
1960	560	2176
1961	631	2623

The picture is no doubt encouraging. But in the L.I.C. also various wastes of funds and losses have come to light which are sufficient for withholding praise for its performance, because the general idea runs that the Corporation should have earned much more than what is revealed in the Report. Of course, given proper vigilance against recurrence of past defects, the

<sup>1</sup> Hanson A. H. : *Managerial Problems in Public Enterprise* New Delhi, 1962 pp. 96-7.

<sup>2</sup> Source : L.I.C. Annual Reports of the years.



Corporation has bright prospects from the point of view of having sufficient revenue-yield in future to augment public funds that would be utilised for further economic development and to serve the community. The L.I.C. has been exploring new fields of investments and some of the fields those were left out, e.g. loans for house building, because "there has been a heavy backlog of such bad cases,"<sup>1</sup> are now being considered for profitable investment<sup>2</sup>. The Investment Committee is also considering for investment of LIC funds in the private sector industries, especially in tea and jute. But serious malinvestment of funds of about Rs. 113 lakhs has been brought out by Parliament, and the Enquiry has also substantially held that fact to be correct, although it is spoken in a restrained language.

The Estimates Committee favoured the investment of LIC funds to be administered directly by the Union Government to further the basic economic and social objectives.<sup>3</sup> In their evidence before the Estimates Committee some witnesses, including Shri A. Subbiah, expressed opinion in favour of the LIC funds to be taken over by the Government, and some emphasised on meeting social objectives through investments of LIC funds<sup>4</sup>. But it was uniformly expressed that the LIC should be given by the Government a fair rate of interest. The recommendation of the Estimates Committee has, however, been rejected by the Government which feels that it would not be proper to denude the LIC of the powers of dealings with its funds, but it is hoped that the L.I.C. in their investment behaviour would demonstrate its vigilance so that the interests of the policy holders and the economic and social objectives of the country are kept in balance<sup>5</sup>.

Truly, the L.I.C., the biggest public corporation in India should not be denied its corporate freedom to pursue its own commercial policy with an eye to an increased profitability. Further, a great controversy and dissatisfaction on either side

<sup>1</sup> *Lok Sabha Debates* Vol XXV No. 9 dt. 19.2.59 Col. 2088.

<sup>2</sup> L.I.C. Annual Reoprt for 1961 p. 9.

<sup>3</sup> 134th Report on cit., paras 101 ff.

<sup>4</sup> Minutes of Evidence before the Estimates Committee relating to 134th Report (1960-61) pp. 11, 24, 29, 50, 77, & 78.

<sup>5</sup> *The Statesman*, Calcutta Nov. 3, 1961.

might have ensued between the Government and the Corporation over the interest rate payable by the Government to the Corporation in view of the uncertain behaviour of money market with alternate upswings and downswings of operational interest-rates. It is, however, expected that the portfolio of the L.I.C. investments should contain "blue chips", and operations be geared on a cautious judgment of bullish or bearish tendency of the stock market. Another grievance that should be redressed by the Corporation is the present regional imbalance of investments. For example, the trend is to invest more in some states than other states having equal urge for funds<sup>1</sup>. The L.I.C. should be vigilant to make a balanced regional disbursement of investible funds.

Attention should further be devoted to the minimising of the lapse ratio of policies by educative process of making the people insurance minded. The upward lapse ratio as recorded in 1961 at 7% against 6.6% in 1960 and 6% in 1959 should be arrested. Further, it would behave well if the L.I.C. stresses on an even flow of business all the year round rather than having an overwhelming work-load towards the end of the year.

It is gratifying to note that the administrative and development training scheme of the L.I.C. has been progressing satisfactorily and it is reported that the total number of administrative assistants trained till 31st December 1961 is 5,597. The Officers' Training College at Nagpur has also trained 741 officers. On the development side also 6,617 Development Officers and 10,665 agents have been trained. The larger number of trained personnel can, of course, demonstrate better performance but managerial vigilance is needed to assess how far the training scheme has been effectively helping the working of the Corporation in its practical operation.

### The Airlines

As to the performance of the airlines, the internal services showed a dismal picture in the initial periods of operation whereas the external services proved to be revenue earning and

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<sup>1</sup> *Minutes of Evidence before the Estimates Committee*, Op. cit. pp. 11-12.

this will be revealed from the following comparative figures of profits and losses<sup>1</sup> :

Year	I.A.C. (Losses in crores of rupees)	A.I.I. (Profits in lakhs of rupees)
1955-56	Loss 1.19	Profit 3.78
1956-57	„ 1.08	„ 38.41
1957-58	„ 1.03	„ 71.67
1958-59	„ 0.91	„ 15.85

The reasons for the decline in the earning of A.I.I. in 1958-59 was stated *inter alia* due to two other factors which adversely affected the Corporation's revenues during the year. These were "increased competition resulting from the entry of additional airlines on some of its main routes and the severe restrictions which continued to be imposed throughout the year by the Government of India on the issue of foreign exchange for travel purposes."<sup>2</sup> On the position of the working results of the two Corporations the Estimates Committee observed that "having noticed the declining profits of the Air India International Corporation and the increasingly heavy losses incurred by the Indian Airlines Corporation the Committee feel that the commercial and economic aspects of the undertakings should receive the most urgent consideration. For this purpose, it is necessary that the authorities in charge of the undertaking should at their level proceed entirely on business and commercial principles while the authority of the Government prevail only where over-riding considerations of national policy over commercial principles arise."<sup>3</sup>

But it can be convincingly stated that the declining trend has not only been arrested but definitely improved results have been achieved by the Airlines Corporations. The I.A.C. recorded a surplus of Rs. 7.81 lakhs in 1959-60. But in 1960-61 the surplus dwindled to Rs. 4.68 lakhs. The decreased profits have been caused, it is stated, due to grounding of the entire Viscount fleet for twelve days in January 1961. This is rather

<sup>1</sup> Source : Annual Reports of the Corporations.

<sup>2</sup> A.I.I. Annual Report 1958-59 p. 5.

<sup>3</sup> 41st Report para 12.

unfortunate. The I.A.C. however, expects to earn larger surpluses in future by the increasing popularity of Viscounts and the passenger load which already increased in 1960-61 by 5% over that of the year 1959-60, is expected to step up further due to addition of two more viscounts to the fleet, and on successful negotiation for additional five Fokker Friendship as well as some trunk route operations of long-haul.

The I.A.C. has increased passenger fares due to increased operational costs resulting from higher wage-structure, increased price of fuel and higher costs for spares and overhaul of aircrafts. It has been argued that the fare structure that was based on 1956-57 costs needed a change in conformity with the existing costs. And the increased fares are almost the same as the U.S. long-haul operation services and lower than the fare structure of the other European countries. One of the depressing factors for the I.A.C.'s operation is the levy of fuel taxation, the burden of which is well increasing. The Corporation would, however, take many years to earn a stable surplus after wiping off the vast accumulated losses of the past years, and the Corporation must show that it can stand on its own financial feet and the Government's responsibility of financing the undertaking is reduced to nil.

The external air service operation carried on by A.I.I. has some advantages over the internal operations, such as, having exemption from fuel taxation, the pooling arrangements with other overseas operators etc. Nevertheless, the A.I.I. is faced with keen competition on the world routes. But happily, the difficulties are being tided over by the introduction of Boeing 707 Jet aircraft. The year 1960-61 has recorded the operating profit of Rs. 117.41 lakhs as against Rs. 18.26 lakhs in the previous year and this certainly indicates creditable performance. Further, the year 1960-61 has been characterised as "the beginning of a new chapter in the history of the airline due to introduction of Boeing-707 and the Corporation's entry into the North Atlantic market on extension of the Bombay-London service to New York in May 1960." The Tripartite Pool Partnership between Air-India, B.O.A.C. and Qantas came into being on the 1st of April 1960 "to obtain for the partners a

greater share of the total available traffic in the face of severe international competition." An important benefit of the Tripartite Partnership to the Corporation is, as reported by the A.I., that 'it enabled it to extend its services to New York almost simultaneously with the introduction of Boeing Jet aircraft on existing routes. If it had continued to operate on its own the Corporation would not have attempted two such important tasks at the same time and the extension to New York would have been postponed by a year.'<sup>1</sup> The A.I. has further struck an optimistic note that in 1961-62 "the three partners will secure the maximum share of the total traffic available and the future may, therefore, continue to be viewed with sober confidence."

While the external services are always expected to have a reasonable surplus-yield, the internal air services, however, are confronted with a paradox. The I.A.C. has the prime responsibility to popularise air services and to set a net-work of airlines to connect different regions of the country, even if some new lines may not be immediately gainful, and this uphill task cast upon the I.A.C. sometimes defeats its policy of earning profits. At present the air services are availed of by the well-to-do people and high ranking officials, and the overwhelming majority of population find the travel by air much expensive. The I.A.C. has, therefore, to take a practical view of the economic conditions of the country before furthering the policy of profit-making, and it has to provide the passengers with better comforts and in order to carry on operation efficiently it has to equip itself with modern speedy aircrafts.

### The D.V.C

The picture of the Damodar Valley Corporation is mixed. On the one hand, the estimates are being continually revised, the latest estimate being Rs. 170 crores as against Rs. 55 crores initially envisaged, and the costs and expenditures together with interest obligations are mounting up and many avoidable expenditure and wastage have been detected and commented upon in the Audit Reports<sup>2</sup>. Whereas, on the other hand, the

<sup>1</sup> Annual Report 1960-61 pp. 8-9.

<sup>2</sup> Annual Report and Audit Report 1959-60 pp. 74-80.

potentiality of the undertaking is estimated to be of a high order and the programme schedule adhered to by the authorities are considered remarkably good even surpassing in some respects its counterpart in the U.S.A., the Tennessee Valley Authority.

The irrigation capacity of the D.V.C. is stated to be 798000 acres but it reported to have irrigated only 630243 acres during 1959-60,<sup>1</sup> which might be due to acute difference of opinion and in outlook now prevailing between the Corporation authorities and the Government of West Bengal. It is dismal to think that the D.V.C.'s dues from the West Bengal Government has not been even acknowledged by the latter.<sup>2</sup> This dispute between the D.V.C. and the West Bengal Government may not only lead to a serious deadlock in the supply of water and irrigational work but this, being aggravated by the disquieting bickerings between the Participating Governments on more than one count, may culminate in future into an incomprehensible state of things, touching the fundamentals of the structure itself. A Committee, appointed under the Chairmanship of Shri M.R. Sachdev, Secretary, Ministry of Irrigation and Power, in its report on power supply has expressed surprise at this feature and it has observed, "we feel that such differences must inevitably lead to friction and want of smooth and harmonious working when consultations with the participating Govts. are necessary and there are basic differences in approach in some important matters."<sup>3</sup> This observation should receive immediate attention of the D.V.C. and the Participating Governments and in the national interest the area of conflict should be narrowed.

Some disturbing features have also been pinpointed by a French expert in the canal system of the D.V.C. and he has estimated a cost of Rs. 60 crores for removing the defects and laying out a proper canal system.<sup>4</sup> Irrigation is one of the laid-down objectives of the Corporation and it is high time that the

<sup>1</sup> Annual Report 1959-60 p. 6.

<sup>2</sup> Audit Report 1958-59 p. 16.

<sup>3</sup> *Report of the Committee to Enquire into the Causes of Recent Failure of Power Supply in West Bengal & Bihar* (Chairman, Shri M. R. Sachdev), New Delhi Sept. 1961, Section VII, Para IV.

<sup>4</sup> *The Statesman*, Calcutta September 20, 1961.

Government should make efforts to see that the D.V.C. gears to the right line. The Public Accounts Committee in its latest report has expressed that the working of D.V.C. is unsatisfactory and has found it necessary to review it and to amend the D.V.C. Act as needful. The matter is now under consideration.<sup>1</sup> A substantial change is expected in future.

Power is the only source of income of the D.V.C. But the demand for power of the D.V.C. has been going on jumping ahead of supply. A load survey carried on in the later part of 1957 estimated the demand for power on the D.V.C. system in 1965-66 at 1195 MW. In fact, the D.V.C. can hardly cope with the demand and there has been constant power failure of the D.V.C. system during 1961 and 1962 and the power failure due to breakdowns gave rise to serious acrimony both at the Central and State legislatures that ultimately led the Government to set the Sachdev Committee as referred above to probe into the causes of power failure and assess the potentiality of the D.V.C. and other sources. The Sachdev Committee by an elaborate analysis has shown that the anticipated demand for power on the D.V.C. system by 1965-66 would be in the order of 925.15 MW while the availability of power at present stands at 337.5 MW. But with the commissioning of Durgapur Power Station and the Chandrapura Power Station of 125/140 MW each which is expected by the end of 1964, the D.V.C. system will have a total saleable capacity of 727.5 MW by 1965-66 and there will be no shortfall. It is felt that in conducting the affairs of the D.V.C. a strong supervision and effective vigilance with proper farsightedness are essential needs of the present moment.

### The I.F.C.

The Industrial Finance Corporation of India which is a development bank for private industries in the few years of its beginning could not show a comfortable position due to higher ratio of administrative expenses, delay in disposal of loan applications, absence of proper vigilance over the returns on investments and injudicious investments on inadequate or unsound

<sup>1</sup> The Statesman. Calcutta, January 23, 1963, p. 9 and January 29 1963, p. 1.

security. The indiscreet investments came under acute criticism and the Public Accounts Committee pointed out that the I.F.C. gave loans to some parties "contrary to the recommendation of the Ministry of Commerce and Industries" and a substantial amount of investments has to be written off as bad debts. The P.A.C. has estimated that Rs. 50 lakhs invested with Sodepur Glass Works are to be written off.<sup>1</sup>

Nevertheless, the performance of the I.F.C. has of late shown a definite improvement and the results during the recent few years are shown below :<sup>2</sup>

Year ending	Total amount of loans disbursed upto the period	(In lakhs of Rs.) Net-profit after providing for taxation
June, 1959	42.32	35.37
" 1960	50.73	59.51
" 1961	57.35	84.75 (inclusive of profit on investments sales Rs. 22.62)

During the year ended June 1962, the Industrial Finance Corporation of India has disbursed a total loan of Rs. 10.78 crores, and it has earned a gross income of Rs. 3.04 crores which is the highest figure reached so far and a gross profit, subject to provision for taxation, of Rs. 130.71 lakhs. This profit is higher by Rs. 13.98 lakhs than that of the previous year, if the profit on sales of investments of the previous year is excluded. The Corporation has increased the provision for taxation from 45% to 50% in 1962 due to enhanced income-tax rates. Another encouraging feature is that the I.F.C. received subvention from the Government of India to the order of Rs. 53.45 lakhs during the first eight years of the career of the Corporation to enable itself to pay the liability of guaranteed dividend of 2¼% per annum on its share capital of Rs. 5 crores and with the progressive liquidation of the subvention in the later years, the amount of subvention has reduced to Rs. 18 lakhs, which is proposed to be paid off out of the profits of the year ended

<sup>1</sup> *Lok Sabha Debates* Vol II, 1954 Sixth Session Col. 2078.

<sup>2</sup> *Source* : Annual Reports of IFC.



June 1962. The Chairman, Shri K.P. Mathrani, I.C.S., has expressed satisfaction over this and observed, "With the discharge of this statutory liability, the Corporation may now claim to have come of age as an institution depending more and more on its own strength in its task of promoting the industrial development of the country."<sup>1</sup> This is certainly significant.

The I.F.C. now looks forward to promoting large projects by financing jointly with other credit institutions and banks, and the international financing institutions like the International Finance Corporation, Washington, have also expressed their desire to co-operate with the I.F.C. But the I.F.C. should guard against dumping its loans into a particular industry or industries as well as concentrating its loans in a region or regions. The loans to the sugar industry that stands at Rs. 30.4 crores in June 1962 is preponderantly high compared to other industries, and Maharastra has been sanctioned much larger loans than any other state. It is, however, expected that with regional disbursement of industries the pattern and places of loans of the Corporation in future will substantially change.

### The R.F.A.

The Rehabilitation Finance Administration was created out of humanitarian consideration of providing an opportunity for displaced persons to pursue independent professions. The Administration was started with the objective of running it on business principles that it should pay its way. But the losses of the R.F.A. have been alarming as the following figures would indicate :

Losses (in lakhs of Rs.)					
Upto the year	1954	1955	1956	1957	1958
	128.24	161.93	164.50	168.26	167.49

Losses have been suffered by the R.F.A. due to the negligence of the management in making adequate enquiries about the asset position of the guarantors to safeguard the investments, and this has caused a loan of about Rs. 515 lakhs to be doubtful. Moreover,

<sup>1</sup> Speech at the Annual General Meeting of the I.F.C. held on Sept. 28, 1962.

there are many overdue loans and the Estimates Committee after a stock taking has viewed that "the actual losses of the R.F.A. might turn out to be much greater than the figures shown in the Accounts."<sup>1</sup> Total overdues as on 31-12-59 stands at Rs. 513 lakhs and bad and doubtful debts at Rs. 100 lakhs, which feature is really disappointing. Injudicious investments on inadequate security and without proper enquiries as to the genuineness of the parties and the objectives of loans applied for certainly reflect on the efficiency of the Administration as the Estimates Committee observes, "the amount of bad and doubtful debt is also a measure of success of a financial institution."<sup>2</sup>

### The C.W.C.

The picture of the Central Warehousing Corporation is certainly gloomy. The losses for the last two years are shown below :

<i>Year</i>	<i>Losses (in lakhs of Rs.)</i>		
1958-59	..	..	4.30
1959-60	..	..	2.69

It appears that the agricultural segment of economy is not yet sufficiently prosperous to maintain the C.W.C. "on an even keel". The authorities should run the Corporation on commercial consideration and make every effort to turn the corner.

### The E.S.I.C.

The Employees' State Insurance Corporation, however, has been showing large profits, though it is primarily a humanitarian institution. The accumulated profits registered as at the end of 1959-60 are Rs. 16.26 lakhs including the profit of Rs. 2.35 lakhs for 1959-60.<sup>3</sup>

### The O.I.N.G.C.

The Oil and Natural Gas Commission, a newly transformed public corporation, is expected to earn a substantial surplus after the initial stages of drilling and exploration and gestation periods

<sup>1</sup> 95th Report (1959-60) 2nd Lok Sabha, para 23.

<sup>2</sup> Ibid para 12.

<sup>3</sup> Annual Report 1959-60 p. 75.

are over. The total expenditure for the first year of its existence from 1.4.59 to 31.3.60 stands at Rs. 599 lakhs.

It should indeed be borne in mind that efficiency cannot be judged by mere profits unless the result is backed by low-cost products or service in order to serve the consumers' interest. Further the criterion of profit is not applicable to some Corporation at the initial period of operation, for example, the Oil and Natural Gas Commission, the D.V.C., the R.F.A. etc. In certain public undertakings in India there is the principle of running on "no profit, no loss" basis as in D.D.T. factory at Delhi, and some have to supply products at cost price, as for example, Hindustan Shipyard where "the Government has decided to subsidise the concern to the extent of the difference between its cost of production and the price at which a similar ship can be purchased from abroad".<sup>1</sup> Over-capitalisation sometimes defies a correct calculation of capital-profit ratio. Hence in some of industrial public enterprises the policy has been adopted to write off a part of fictitious or deferred expenditure in order to have the capital structure equal to the assets of the enterprise. For example, in the case of D.D.T. factory it has been decided that only 50% of the expenses during the construction period and 5% of preliminary expenses should be capitalised and the balance written off. So also in Sindri Fertilizers out of total expenditure of Rs. 23 crores, Rs. 17 crores are to be capitalised.

### Conditions of success

Hence profitability depends much upon the condition in which the business is run. Nonetheless, an economic venture should always aim at earning surpluses by efficient conduct of the enterprise to justify the superiority of the public undertaking in one or the other way. In order to have a profitable running of the enterprise, however, some basic factors need be considered.

#### (a) *Fixing of Norms*

Fixing of norms of production is one of the basic needs of efficient conduct of an enterprise. The Public Accounts Committee's observation in this respect in case of Bharat

<sup>1</sup> U. N. Seminar, New Delhi Op. cit., para No. 12 p. 8.

Electronics and Hindustan Antibiotics are instructive. Unless productivity per worker is fixed, efficiency can hardly be judged, but this is liable to change upward with gaining of experience and training facilities. Nevertheless, in order to carry on operation, some norm must be fixed to keep a watch over the result and variation thereof from the norm. A recurring variation would certainly indicate necessity of a modification of the norm either upward or downward. How can a norm of workers' productivity in nationalised sector be fixed, especially in an unexperimented field? Norm can be set by two methods, either by a comparative data and method of working of the foreign counterparts of the enterprise or by referring to the private industry in similar lines. The former method is difficult to be applied in view of the different conditions prevailing in two countries and for difference of policies, methods of operations and industrial conditions of the respective countries. For example, the D.V.C. cannot exactly follow its prototype in the U.S.A. as the political, economic and social conditions of the two countries are different. Certainly this method is cumbersome and difficult of application due to many factors. The second method is, therefore, the only alternative and possible method that can profitably be followed by the public corporations in India. In some industrial enterprises such as the Hindustan Machine Tools Limited, Integral Coach Factory, the Hindustan Antibiotics etc. some norms have been fixed but these norms could hardly be maintained. For example, in the Hindustan Machine Tools, Revised target for 1958-59 could not be achieved. The Hindustan Antibiotics Ltd. has however given a good account of itself, as in 1958-59 the production was 25.20 mega units as against a target of 24 mega units and in 1959-60 the production was 33.06 mega units as against the target of 30 mega units. The target for 61-62 has been fixed at 40 mega units. In the D.D.T. factory, however, actual output in 1957 and 1958 fell far short of the capacity. For instance, the capacity is 1400 tons Tech DDT p.a. whereas in 1958 the output was 1130.44 Tech DDT p.a. In fact, efficiency can be determined by reference to the achievement of the norm set in an undertaking. But fixing of norm appears to be easier and more applicable

in the case of industrial venture than the fields occupied now by the public corporations in India. Industrial relations have much to do in this respect. Incentive Bonus scheme, as is in vogue in the Chittaranjan Locomotive, and graduated piece rate system of wage payment can pave the way towards establishing a sound norm. But it is difficult in the case of jobs to which particular speciality is attached and special job is required to be executed such as designing, making of particular moulds or jobs requiring particular skill and care. Here the norm can only be on a rough and ready basis and with the passage of time some standard would be set. In the Indian public corporation norm is seriously lacking and no scientific method of management by time and motion study has been successfully applied.

Industrial Relations Committee should be consulted in fixing the norm so that there may not be any misunderstanding over it, and the workers engaged in the undertaking are to be made to feel their unity of interests in achieving the norm and demonstrating their efficiency.

*(b) Selection of Supervisory Staff*

How to denote efficiency of supervisory staff who do not directly engage themselves in the jobs has got to be considered. Obviously there can be two criteria : (i) by reference to increased production, and (ii) by reduction of wastage and arresting of losses. Sufficient incentive should also be provided for supervisory staff because supervision is needed not only for larger output but also for perfect jobbing. In Russia, the Manager at the helm of affairs is given reward for good result while he is penalised in case of adverse result and such practice is followed in every level of production. It is high time that this should be considered by the public corporations in India and the model set by the Hindustan Machine Tools, if followed assiduously, can modify the norm substantially towards a higher level.

*(c) Absence of Industrial Strife*

Good industrial moral is the *sine qua non* of success of a nationalised industry. With a view to having a complete

co-operation of the staff and workers, the Managers have to inculcate a sense of public service into the employees so that the notion that "we won't work for another's profit" cannot have any room in the public sector. Mere absence of industrial strife cannot, however, ensure success, unless a spirit of service develops.<sup>1</sup> In India the L.I.C. faced serious set back during the initial stages as the field workers and the agents were not sure about their future and a sort of inaction, go-slow policy leading to serious deterioration in business prevailed for some-time, and the matter could be settled ultimately only after two years of the inception of the Corporation. The D.V.C. also had to face industrial unrest. Industrial disputes are however a common feature in modern economic condition due to growing consciousness of workers in asserting their rights on the one hand and the management's reluctance to yield to the demands of labour on the other, and it will be too much to expect industrial strife to be totally absent in the public sector. Nevertheless, there should be constant endeavour of the corporation to resolve the disputes as far as possible by persuasion, conciliation and voluntary measures which will ensure an even flow of working and efficiency in the long run, if not immediately. The picture prevailing in the public industrial undertakings is not however discouraging although not fully satisfactory. For example, the Hindustan Steel in its Annual Report for 1959-60 states, "It is heartening to note that during this year also there was no major strike or disturbance entailing serious stoppage of work."<sup>2</sup> The Bhilai has already been showing profits and Durgapur has also a smooth sailing without any strike in 1960-61, although some strikes were reported at Rourkela<sup>3</sup> which also evoked criticism that the workers were not getting a fair deal. Recently, at a high-level conference, the Government expressed that the industrial relations in Rourkela and Bhilai was "far from satisfactory" and Shri L. N. Mishra reviewing the condition said, "no uniform or acceptable basis has been evolved for fixing wages, nor conditions of service laid down. The practice has been for labour to

<sup>1</sup> Robson W. A. Op. cit., pp. 199-200.

<sup>2</sup> Page 24.

<sup>3</sup> Annual Report for 1960-61 p. 20.

resort to pressure tactics, including coercion, intimidation and even violence and the managements to concede certain demands, under duress"<sup>3</sup>. It is hoped that the joint efforts of the Government, the management and the trade unions would straighten out the position. The Hindustan Machine Tools have expressed satisfaction over the employee-management relation in their Annual Report for 1959-60 and said that "the moral and discipline of the workers were maintained at a satisfactory level during the year, which contributed to your company to achieving a record annual production"<sup>4</sup>. The scheme of the Workers' Participation in Management was however given up after a trial for two years and this is for other reasons. But HMT, have been experiencing difficulty in tackling with rival unions for extending recognition, although the rivalry has not affected production. To tone up the situation, however, the Industrial Relations Committee has undoubtedly a duty to discharge to educate the workers from a broad outlook of the matter and encourage them to put in their best efforts, by developing a spirit of self-sacrifice in the national interest as well as to endeavour to get the maximum benefit for the workers from the management without creating, however, any strained relations between the workers and the management. The Committee should, however, look to the other side so that the demands of the workers should not be thrust upon the management without caring for their possible repercussions on the earnings of the enterprise. In fact, in discharging the functions of a liaison between the workers and the management, the Industrial Relations Committee has an onerous responsibility to see that the enterprise can run on an even financial keel and can plan for further extension out of surpluses of earnings.

(d) *Measurement and Publicity*

Measurement signifies determination of both quantitative enumeration and qualitative assessment. It calls for a sound costing system to function throughout the year as well as periodical audit of performance to denote defects and suggest improvements. The findings of the investigatory committees

<sup>3</sup> *The Statesman*, Calcutta dt. 27.6.61.

<sup>4</sup> Page 14.

are, no doubt, of great value as that would check the recurrence or repetition of past mistakes. The Webbs regarded "publicity and measurement as the two most potential instruments of efficiency"<sup>1</sup>. Indeed, public opinion is the barometer and decisive in a democracy, and there is an undoubted necessity for having effective instruments of publicity for disseminating information and educating public opinion favourable to the public sector economy. Subjective standard of test is often stronger, and assessment of performance depends much upon proper interpretation of things. For example, in the case of the T.V.A., the measurement of performance depends well upon "the appraiser's reading of the Act"<sup>1</sup>. So, the different interpretations given by the different critics or students of economic institutions often confuse the issue and blur the correct assessment. If one or two minor lapses on the part of the Boards are seized upon for adverse criticism holding the management faulty and inefficient, or if one or two achievements are treated for its efficiency, the judgment is certainly unbalanced. Hence the standard of efficiency varies from man to man in his own interpretation of the matter and understanding of the issues, and conflicting opinions are bound to prevail on a particular achievement or failure. Nevertheless, there is more or less agreed criteria about efficiency or otherwise of a public undertaking that should guide it in gearing to the right line of advancement in order to earn an irreproachable opinion about it.

It is, therefore, admitted that no single factor can be taken as a criterion of efficiency as it depends upon the combination of all factors. Break-even test is no doubt important but it cannot be said to be the acid test of efficiency of a nationalised industry, as the real test of efficiency of a public undertaking lies in judging how far break-even policy has enhanced the consumers' interest. Further in a socialist economy "no profit, no loss" principle is fast changing to "surplus" concept and public undertakings are to run on commercial principles. Therefore, a balance between the opposite pulls—consumers' interest and surplus earning, needs to be struck.

<sup>1</sup> Roscoe Martin ed. Op. cit., p. 265.



During the gestation and initial phases of development it would be enough if the projects are conceived on sound lines and the constructional works proceed on an even speed conforming to the budget estimate and to the time-schedule, and initial operations are carried on on a meritorious assessment of the situation avoiding high cost of production and waste or misuse of public funds. Initial period being over, the efficiency will be judged by the combined factors of profitability and achievement of the consumers' interest and ideals of the nation.

Public enterprise should indeed keep a keen watch on the other competitors in the field and should constantly endeavour to introduce innovations and improved techniques of operation to stand the test of competition. Flexibility in the methods of operation is one of the conditions of success of an undertaking in the public sector as in a private industry, and this calls for an efficient internal organisation with a commercial outlook.

Though no serious prognostication about the achievement of the public corporations in India at this stage is possible, it is, however, certainly true that the public corporations in India have already been sailing along on efficiency line and in times ahead the institution of public corporation will prove well worth its objectives to bring prosperity to the country. In order to have an effective opinion about it, it is necessary to visualise a correct balance between the different and the opposite pulls and paradoxes such as, workers' welfare and consumers' interests, corporate freedom and public accountability, consumers' interest and surplus concept and commercial losses and social gains. But a proper judgment of a matter in its proper perspective calls for education in the field and this education is certainly to be imparted by the corporations themselves, by the Minister, by Parliament and by the Press. The Reports of the Boards of the public corporations and their public relations organisation are the starting points which will be of outstanding influence in the matter of creating opinions about the corporations. But the annual reports or publicity brochures are never impartial documents. Boldness requires the reports to be comprehensive by having ably brought out the difficulties of the corporations, to provide a true picture of the working of the corporations,

without any tendency of taking a defensive stand or shielding a misdeed or abuse of power or gross inefficiency. Public opinion must be moulded to shape it in the context and objective of the public undertaking so that it does not run counter to the basic ideas of a public corporation either to eulogise a commercial gain or denounce a loss as the principle here is to make neither a profit nor a loss for a public utility service and to make surpluses in an economic venture without fleecing the consumers. Truly, efficiency will be demonstrated by the upholding of the objectives of the nationalised industry by the state authorities, the management, and the public on a well balanced judgment of its achievements or failures, and in this lies the *summum bonum* of a public corporation.

## CHAPETR XI

### *PUBLIC CORPORATION REVIEWED*

#### **Public Sector—a dynamic force**

The purpose of this chapter is to discuss in a condensed way the more pronounced ideas behind the facet of public sector economy as well as to make explicit some of the problems warranting a fresh thinking for acceptable solutions. Indeed, new India has been pulsating with a new life. The vigorous stride of developmnt is marked in many ways and tremendous energy and effort are being put in for carrying out prodigious projects. All pent up force has been released towards national uplift and development of the country in order to gain an honourable place in the comity of Nations. The stronghold of capitalist economy has been slackened to make room for the State's role in the programme of development, but the country has realised that development is possible only if there is integration of public and private economy. One is complementary of the other, and there is no antagonism between them.<sup>1</sup> On this principle rests the whole frame of national economy whose arteries are far extended touching different fields of enterprises. Truly, the development of the country rests largely on the State's activities in the economic field and "the infra-structure of the economy will not get built up by private efforts",<sup>2</sup> and development depends much upon a judicious allocation of activities between the public sector and the private sector. The rationale of the extension of the public sector is

<sup>1</sup> Government of India : *Second Five Year Plan—A Draft Outline* (1956) p. 10.

<sup>2</sup> Asoka Mehta—Article : *Primacy of Public Sector in Developing Economies* in *The Statesman*, Calcutta 3. 11. 60.

the objective of bringing all-out economic well-being and welfare to the people. "

The genesis of an economic organisation largely explains the motives behind it, and problems start with it. In the public sector, India has introduced many forms of organisation each having its peculiar characteristics and features. Experimentation is obviously going on in the public sector with different organisational structures, and in the process of evolution a suitable form would emerge. Public sector in India has evolved preponderantly two forms of organisation, namely, the company form and the public corporation. The propriety and advisability of bringing into existence a public organisation by the Executive Resolution have been called in question, and avoidance of rigid procedural matters and quickness of action are considered but weak arguments in support of such action. An executive action, convenient though it is, substantially alters the character of the undertaking in all its aspects, and it matters much. Executive action shuts out Parliament from examining the scope of the enterprise and, above all, it largely takes away parliamentary control over the enterprise. A public enterprise involves public money, and its accountability to Parliament which is "the guardian of the national interest" can hardly be disputed. But in case of a company form of organisation emanating from an executive action, the Parliamentary control and accountability become only indirect. This is a step which not only keeps an enterprise above the obligation of accountability for the national assets and the tax-payers' money, but also deprives Parliament of its constitutional right of an overall control over public funds. Besides, the administration of the economic activities under the circumstances being largely regulated by executive action, parliamentary assessment is only indirect. Form of organisation has, therefore, to occupy an important place in the public sector, and a suitable form of organisation needs to be evolved that would ensure corporate freedom of action and at the same time assure parliamentary control and accountability, which is but inherent in an organisation directly set up by a Statute of Parliament.

Mixed economy is a baffling feature in evolving any definite form of organisation in the public sector, and here a rational

approach is necessary in keeping an even balance between the two sectors. In the most pragmatic manner, India's national economy has given place to mixed enterprises, where the Government not only participates in the capital but also shoulders the responsibility of administering the enterprise in the national interest. Certainly, the state should not be mere acquisitive but should share the praise or blame in course of administration of the policy with its private partners. But here the enterprise is locked up in difficulty. The success of the enterprise undoubtedly depends upon the commercial freedom of management which is assured only when it is free from rabid onslaughts by self-conceited politicians, ill-considered denigration of public enterprise and pejorative pronouncements against public ownership.

### Form of Organisation

The economists and administrators, in the evolution of constitutional change in the economic structure, have been continually searching for a form of organisation to give us the best of both worlds autonomous behaviour and flexibility of operations of a commercial house and accountability of a State project. And here lies the crux of the public sector economy replete with the least tractable problems. The board-minister-parliament relationship is suffering from ambiguities and vagueness. The feeling of the Board is that its commercial freedom is largely stifled by the ministerial interference mostly in informal manner and the tendency of its being kept under the harrow of Parliament is stronger than expected. The minister finds himself in a very unenviable position when assailed in Parliament on account of some failures of a public corporation and as he is heckled, so does he feel an urge for tightening up the control over the corporation and sometimes poses himself as though he is one of the management. Parliament, on the other hand, feels that its sovereign rights are to a large extent curtailed and curbed by self-denying Ordinance to keep up the artificial difference between the affairs pertaining to daily management and those relating to policy matters.

These contrasting feelings about the powers and responsibilities of the board, the minister and Parliament tend to

obliterate the border lines of the areas of functioning of each, and encroachment of the one over the domain of the other becomes manifest to the utter disgust and resentment of the latter. How to remedy this situation? A very intriguing question indeed. Should there be an end of the distinction between day-to-day affairs and policy matters? Should Parliament have the freedom to table questions on any range to raise the veil of protection of the philosophy of daily management affairs that often cause perpetuation of mistakes? All these queries need an unbiased probe into the deeper problems for finding out concrete solutions.

Nobody has quarrel with Parliamentary inquisition into the affairs of the public enterprise where both public money and national interests are involved. But there is obvious difference of opinion about the manner in which this is done now, and also the manner in which the Ministers are avoiding their public responsibility by informal pressure and persuasion on the Board. The distinction between a Government department and a public corporation appears to be artificial as there is, on the one hand, a good deal of looking-over-the-shoulder of the Boards by the ministers, too often making "autonomy" of the Boards a sham, and on the other hand, parliament is yet to develop the convention of an objective outlook of the matter to push forward more important issues rather than dabbling in petti-fogging details. Indeed, "public corporations do not function in a political vacuum", but it does not suggest irresponsible or unwarranted use of democratic rights. Economics and politics should be kept apart as far as possible. Nevertheless, the sovereign rights of Parliament are bound to assert themselves to gear a public enterprise to the right direction, and there is an undeniable need to keep the areas of autonomous functioning of the Board clear and distinct from those requiring parliamentary inquest.

More often than not, the distinction is blurred by parliamentary excesses and the minister is tempted either to use the Board as a screen against attacks directed to him or to use his reserve powers of interventions more intently but informally and the men of stature on the Board are but reduced to the position of dignified assistants to move at the finger-points of

the minister. And the chain reaction on all fronts shakes the very foundation of this new innovation and invites some other form of administration to take its place. Even the developed countries do not seem to be beyond this phenomenon.<sup>1</sup>

Should the form of public corporation die an unhonourable death and the age-old red-tapish form of direct control replace it? The Damodar Valley Corporation, the pioneer Public Corporation in India, appears to be in a difficult predicament to get out of the mess of the bickerings between the Participating Governments. It is a pity when the Tennessee Valley Authority is an organisation *par excellence* to administer the biggest inter-State river project of the U.S.A., its prototype in India is threatened with demolition of its organisational structure. But whatever drawbacks may there be at the present moment in this form of economic organisation, the remedy does not lie in scrapping it but in developing a code of conventions on different aspects. It is a useless thinking that the statute should define everything, and put the corporation into a straight-jacket. Really, the exigency of circumstances is to prompt the administrators to act up to the matter, and the Board in its autonomous functioning is to proceed cautiously and prudently, the Minister to face up to his responsibilities in exercising his reserve powers, and also Parliament to be above discursive debates.

But conventions are a process of time grown with ceaseless experiments carried on with unstinted faith on the philosophy of the economic organisation, and restraints on many counts are called for before a final decision can be made. Indeed, if death is taken for granted without any attempt to cure the malady, the rate of mortality in the economic organisations would undoubtedly be horrible. The matter, therefore, suggests a study of symptoms and a surgical operation, if necessary, to remove a diseased limb in the body of the organisation. There should not be a death-blow from any corner on this embryonic economic organisation on an ill-considered judgment of the situation. While far from adulating this new form, there

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<sup>1</sup> Hanson A. H. : *Parliament and Public Ownership*, Chap. VIII.

appears, however, to have enough scope for effectively introducing this form to an increasing extent in future economic projects of the country. And a master law seems to be an immediate need.

There is, however, no magic in the word "Public Corporation" itself unless its character is maintained with diligence, and there is scrupulous regard for the principles on which the institution rests. This certainly calls for a breadth of vision, and a prodigious strength and vitality in the administration of the corporation to defend itself from the public outbursts and denigration, ruinous parliamentary assailing, derogatory and informal ministerial beck and call, and at the same time carrying on the administration above reproach. In seeking the "best talents", some categories of persons such as civil servants and M.Ps. are suggested to be left out to avoid the administration to become bureaucratic, and also to avoid infiltration of politics in the realm of national economy. While there should be close guard against the administration of the public corporations being overridden by an exiguous body of civil servants serving on the board either on the whole-time or part-time basis, it appears, however, that gross violation of principles, abuse of powers, surreptitious perpetration of politics can be held in check by a constant vigilance of the executive Ministry and the Standing Committee of Parliament, and the surest check in this regard is the express power of the Minister to cashier a member found unsuitable to serve on the Board. Misapprehension is, therefore, largely offset, circumscribed and slashed by the Minister's potential powers and weapons.

### **Monolithic-Vs.-Multiple Corporations**

Controversy exists in regard to the structure of management, whether it should be federal or unitary. Of course, tiers of management should be reasonable, as too many of them tend to complicate matters<sup>1</sup>. The administrators are, however, hovering in the twilight without having a clear vision of it. No unqualified support can, however, be extended to the conception of either a monolithic corporation or multiple

<sup>1</sup> Sir Arthur Street : loc. cit. p. 171.



corporations in an economic field. Both the structures have merits and defects when visualised from a particular angle. But the matter would be far easy when the issue is determined on the nature of service or supply entrusted to the corporation and the principles on which these can be effectively administered. When the local or regional problems are distinct from those of general issues, there is certainly need for regional or area autonomous boards. But when the nature and policy of service or supply are mostly common everywhere, the central autonomous board with decentralised area operations by wider delegation of authority to the area units can be an effective administration. The distinction can well be stated by reference to the nature of the projects and undertakings of the D.V.C. and the L.I.C. The D.V.C. has operations scattered over different zones and the problems of irrigation and power supply of an area are distinct from those of another and many changes of major or minor character in the policy may be needed in keeping with the local economic conditions as well as incentives to developmental programmes of the respective areas. And here autonomous area units can be more effective in furthering the objectives of the multi-purpose projects, on the model of the British Electricity or Gas industries. But in the L.I.C. the policy is ubiquitous in its application to all persons alike and modifications according to the area problems are likely to be of minor character and importance. The L.I.C. can, therefore, continue with its monolithic structure, and mere vastness of operations in farfoliated regions does not call for multi-structural organisations. It is apprehended that the volume of increased business year to year may someday become too vast to be controlled by a monolithic organisation. But admitting the increased business of the corporation, the remedy does not lie in fragmenting the existing structure and introducing a number of autonomous area units but in strengthening the tiers of administration by manning the area units with efficient and experienced personnel with increased authority from the Board. A proper co-ordination of the work at different zones is a vital necessity for the efficient conduct of the undertaking by the Board. Some argue for the zones to work on competitive basis. But the conception is not only hazy but hazardous to the

undertaking itself. In what respect the competition is contemplated? The zone cannot offer any lower rates of premiums, or extra facilities to the local population to bag more policies. Neither does it enjoy powers to modify the set-down rules or major policy just to suit the motive of the local administration. It is, therefore, no good thrusting competition on the zones to breed ill-feelings between them on one count or the other. The proper course is to have a strong supervision over the zonal administration and to delegate larger authority to the areas for operational efficiency.

### Control and Accountability

The autonomy of a public corporation is certainly circumscribed by the powers of the Minister and Parliamentary surveillance. The Minister stands as a liaison between the Board and Parliament, and in exercising his powers over the Board he has to be cautious so as not to overshadow the corporate freedom of the Board by his excesses or treat an autonomous body but as his subordinate. In exercising his power a clear distinction has to be drawn between a suggestion made for consideration and an instruction for compliance, as in the latter case there is no option for the Board but to abide by it as though it is a direction of a Minister.<sup>1</sup>

Parliamentary surveillance is an utmost necessity to maintain control over the corporation and the Board's excesses. Parliament is the organ and an effective forum to accord appreciation or record displeasure about a public enterprise. Too much prodding by Parliament should, however, be avoided as it might provoke criticism that the form of organisation which should be, on principle an autonomous body, is "not a corporation at all, except that it has a legal personality so that it can sue and be sued as a unit. It is, in fact, an emancipation of the Ministry which, by a pleasant trick of nomenclature well known to Government Departments, has been called something else to make it more palatable to the public."<sup>2</sup>

<sup>1</sup> *The Estimates Committee 134th Report 1960/61 2nd Lok Sabha*, para 34.

<sup>2</sup> Prof. Keeton, as quoted by Kelf-Cohen in *Nationalisation in Britain* (1958) p. 171.

Parliament is to exercise control not only through the ordinary methods of roving debates, questioning or asking on motions, but more constant vigilance is necessary to regulate the actions of the Board to proper channels through the scrutiny by Parliamentary organs. Parliament has an undoubted responsibility to discharge in the public interest to ventilate public opinion about the nationalised sector of economy. It should, therefore, have appropriate agencies to unify the reports of the enterprise and to place a comprehensive report on the working of the corporations to aid parliamentary discussion. Public sector is accountable to the public through Parliament but a brake should be put on the tendency of too much prodding into details. The sanctity of Parliament in regard to the public sector can best be maintained by a rational, logical and cohesive approach to the matter instead of viewing it from a narrow angle to pick up isolated matters of lapses and irregularities for parliamentary assailing. Petty-fogging attitude of Parliament often magnifies the mistakes, and leads to acrimony and unnecessary straining of the public mind. But a balanced judgment of matters, a logical and sequential approach to things and a capacity to take an overall view of the scheme of development, call for adequate education and training of mind to distinguish forest from jungles. New democracy needs a band of parliamentarians truly educated in the conception of public sector economics before they can be expected to take an effective stand in Parliament; otherwise, desultory, incoherent and disastrous accusations and assailing would ensue. Parliament, if it reduces itself to an arena of fight between Members and the Minister, the former, vociferous in approach to extract matters and the latter, reserve and cautious in disclosing the working of public sector, can little enhance the purpose, and, in that circumstance, the debates would tend to be political "tug-of-war". But this does not, however, go to suggest that debates should proceed in a naive, humdrum and insipid way. Debates to be effective should be on the broad lines and compact in character. The Committees and Commissions can prove to be useful in extending the antennae of Parliament and can contribute much in shaping the debates in proper fashion. No provision of law, salutary or otherwise, can be an infallible

panacea of the malaise developed between parliamentary control and corporate freedom ; no rule of law can be effective in either way as the apprehension is now on the side of misunderstanding of rights and functions of one raided by another. The remedy, therefore, lies in the convention to be developed with the passage of time by a conscious Parliament and the public relating to the public corporation in proper appreciation of the respective rôles of both. Parliament as a store-house of knowledge and experience can become a perennial source of inspiration and innovation in the field of public undertakings instead of becoming an adversary by its unbecoming conduct. Periodic enquiry into the affairs of public undertakings by parliamentary committee, besides the Standing Committees and Audit Commission, for regular vigilance in one or the other way, would immensely further the purpose of parliamentary control and accountability of the nationalised sector.

But the success of a public corporation will largely depend on the united actions of the Board, the Minister, Parliament and personnel connected with it. On the administrative side, it eagerly looks for qualities with "administrative flair, energy, readiness to accept responsibility and adaptability to the circumstances." But the dearth of talents in an under-developed country is proverbial and India is no exception. This feature has been expressed times without number in a number of discussions both in the Government circle and in public forum.<sup>1</sup> Hindrance due to dearth of personnel appears to be an insurmountable obstacle to the development of the public sector. In this context a caution expressed in the Rangoon Report is significant. "Where administrative and managerial staff is not readily available", the Report observes, "possibilities for simplification of the organisational structure and its methods should be constantly and carefully studied."<sup>2</sup> India should now consider how far the public sector can function with the available internal talents by the maximum utilisation of the fund of skill.

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<sup>1</sup> U.N., *Process and Problems of Industrialisation in Under-developed Countries* (1955), p. 33.

<sup>2</sup> Op. cit. p. 35.

## Problems of Training

It is a happy augury that public sector has been gaining momentum and training of personnel has been considered of prime importance to maintain efficiency of public enterprise. The training should be both theoretical and practical. While theoretical training can be imported in the training centres, practical training can be possible from private organisations of repute and standing. There are, however, practical difficulties mainly on three counts. First, how far would a private sector accommodate personnel of the public sector, especially in competitive industries ; secondly, whether should the men in the organisation itself be engaged in imparting training to the students or a teacher or teachers belonging to the Institution be given facility to handle the plants for training purposes ; and thirdly, what should be the consideration for this ? Would the private institution concerned be given any grant, concession or contract, commission etc. or would the Government pay a monthly or annual consideration on the basis of number of students, working hours consumed and importance of training involved ? But these are never intractable problems and will mitigate largely if the policy of the Government is steady and sound enough to treat private sector as an honourable partner in the development planning of the country, as Dr. Lokanathan observes that "today in spite of the expansion of the public sector, private enterprise in India is not only buoyant but is optimistic of the future which provides ample evidence in support of the thesis that in a properly planned economy not only is there no conflict of the type imagined in a purely doctrinaire approach but the expansion of the private sector is itself conditional on an appropriate expansion of the public sector"<sup>1</sup>. Indeed the co-operation and co-ordination will depend much upon maintaining this spirit on either side.

Arrangement should be made on Government-to-Government basis for foreign training of Indian personnel especially belonging to technical side. In the industrial sector, especially in Steel, arrangement is already there to get the Indians trained abroad

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<sup>1</sup> Loc. cit. p. 11.

by the respective Governments of the countries collaborating in the different projects. Public undertakings require foreign trained personnel not only to run the enterprises successfully but also to train the local talents in the light of training and experience received by them abroad. There is a recommendation of International Training Institute for more effective and successful running of the public enterprise on a mutual co-operation of the other countries of the world<sup>1</sup>. This is a happy proposal but it appears, however, that no initiative has been taken to put this into effect. To put the proposal into effect, however, there would be need for understanding and co-operation between foreign Governments.

### **Public Sector—a model employer**

The exploitation of labour in private sector is a much-discussed and vexatious problem. Society expects public sector to amply amend the course of private sector to become a “model employer”, and the ideology of socialistic pattern of society which implies welfare and happiness demands more from the public corporation to rise up to the occasion to bring happiness to the worker engaged in it. The worker should never be treated as a “wage-slave”. Admittedly, the problem has no easy solution because of opposite pulls—maximum extraction of wage by the one, and maintaining low-cost production by the other. These diametrically opposed factors are too wide to be narrowed so easily. A free understanding between labour and management in the public sector is an essential need for the success of the project.

Participation of labour in management is the cry of the day. It has originated from distrust of the workers in the management on the belief that the management is prone to conceal the actual state of affairs of the industry and to hold a discouraging picture before them to keep off their demands. This attitude should, however, be discountenanced in a public undertaking where welfare and not profit is the end, as Mr. Morrison says that a public corporation functions “not for sectional interests” but “for the nation.” Workers in public

sector should, therefore, reorientate their outlook and no distrust in the management should develop on the count of profits. Further, in order to avoid industrial strife, there should be no access for the National Trade Unions ; but full recognition should be extended to the internal staff union, and a free negotiation with it is an adequate safeguard against precipitation of industrial discord and deadlock. But above all, the anachronistic ideas of militant trade unionism should be totally shaken off and a spirit of co-operation, sacrifice, and devotion to work should be developed in the workers through the process of constant consultation and educative measure. No written law is sufficient for the purpose, and the necessity here is the rule of conduct and the rule of morality that should be cultivated by labour.

### Role of Consumers' Council

Demand of increased wages by labour stands inversely to the interest of consumers because of the resultant higher cost of production and consequential higher price. Fleecing of customers is a standing accusation against the private sector, and the general expectation is that consumers would find their interests adequately protected in public undertakings. Protection of consumers' interests is certainly an overriding objective of the public sector undertakings. In Great Britain, the Nationalisation Acts have provided for a series of institutions for safeguarding the interests of the consumers and there are a number of Consumers' Councils in Coal industry, in Gas and Electricity and in Air transport. The functions of these Consumers' Councils can be reduced to three main heads, viz. (i) to assess the policy of the Boards from the consumers' point of view ; (ii) to formulate and submit the representative consumers' opinion for the Board's consideration ; and (iii) to deal with individual complaints by taking up the matter with the Board. These Councils have no sanction of a Tribunal behind them, and the status is that of a consultative body and the decisions are no more than exhortations, and as such, the weakness sometimes becomes manifest, as in the case of the Eastern Electricity Consultative Council, U.K., in enforcing new prices, although "the Boards and Councils have been reasonably successful in

establishing"<sup>1</sup> the consultative relationship in most cases. The success of such consumers' councils depends primarily on the mutual respect for the opinions both of the Board and the Councils. Nationalised undertaking enjoying a monopoly position has the opportunity of fleecing consumers and this position, if taken advantage of, certainly cuts at the root of the objective of a public undertaking. To avoid such potential danger, it is necessary that a suitable body should be there to hold the tendency of exploitation in check as well as to bring home to the Board the problems of consumers in their various aspects, such as, rates, timing of supply and problems of distribution. It, however, appears that in most cases the action taken by the council in the U.K. on price proposals of the Boards has been "to study the proposals and supporting statistics, and give their blessing". One of the defects in the constitution of consumers' councils is that they are not representative in character but have appointed personnel with a member of the Board as the ex-officio chairman. In such a situation the position of the chairman is embarrassing as he is to discharge dual functions often of mutually conflicting nature. He is to defend the Board's action and in the same breath to signify his assent to the resolutions of the consumers' council committed upon the Board. The remedy, therefore, lies in having independent men of ability to serve on the council. In India, the Corporation Acts, in general, do not provide for consumers' council. The Air Corporations Act<sup>2</sup> provides for creating an Air Transport Council which, at the request of either of the corporations or on particular reference of the Director General of Civil Aviation or the Director General of Posts & Telegraphs or at the request of the Central Government, is to consider and investigate matters relating to fares, freight and other charges in general or on specific cases and to advise on such matters on which action may be taken. But this is a purely internal management with representation of consumers, and no function of consumers' council can be attributed to it. The reason of omission of consumers' body in the Indian Acts is not understandable in the

<sup>1</sup> Frank Milligan in Robson W.A. (ed) Op. cit. p. 165.

<sup>2</sup> Sections 30 and 31 of Air Corporations Act.



context of the basic objective of the public sector to do good to the common man. The consumers' councils are called for in cases of industrial and commercial undertakings mainly and directly, and in other services only indirectly for purposes of bringing home their problems to the management of the undertakings for necessary solution in the wider interests of the consumers.

The Indian railways have a Rates Tribunal to settle disputes between the railways and their users with regard to railway freight and it has both advisory and mandatory jurisdiction. The Tribunal has jurisdiction to decide specific complaint of rate-charges and the decision, so far as it does not alter the rate-structure and general revenue policy of the railways, is binding, although in great many other respects its opinion is only of advisory character and has no force of an award of law. Nevertheless, this is far a stronger body than any of the British type consumers' councils which all through function in consultative relationship and cannot enforce its resolutions on the Board. The overriding consideration of setting up of a consumers' council is to promote the consumers' interest not by coercing the Board but by assisting it, and its function is one of negotiation rather than adjudication. A combination of complete understanding between the Board and the council and harmonious and non-conflicting actions on both sides are, therefore, the key-note of success of a consumers' council. But paragon of niceties of harmonious operations more often remains unachieved in practice, and chances of conflict are inherent in the provision itself, as implication of the law is likely to be honoured more in the breach than in observance where the letter of the law has no binding force. Here, the necessity is felt of a superior body having judicial functions and powers to adjudicate over the consumers' complaints and pronounce decision that will have a binding force of law and whose *obiter dicta* should also receive respectful attention. The Indian public corporation should, therefore, set up regional consumers' committees with a Central Council to co-ordinate the loose ends, and as also a Consumers' Interests Tribunal to adjudicate over specific complaints at the instance of the Board or the consumers' council or on their joint

reference, and the decision of the Tribunal is to be binding on the disputants. Such experiments are urgently called for in the D.V.C., L.I.C., Air Corporations and Central Warehousing Corporation. It is to be borne in mind that if consumers' interests are foiled by the monopolistic position of a public undertaking, the public sector will cause widespread discontent and will stand to be detested.

Administrative Tribunals have been set up to adjudicate over compensation and other specific matters<sup>1</sup> and the Tribunals' decisions are made absolute by specific denial of jurisdiction of Courts of law to adjudicate on matters intended for Tribunals' decision<sup>2</sup>. Efficiency of operation no doubt always needs quick and prompt decision but the advisability of shutting out the court of law is questionable. Though, in general terms, some Tribunals may be made a final authority but in regard to disputes on points of law, some superior judicial authority must act. There is no doubt an overwhelming argument for administrative tribunal for promptness of operations in preference to ordinary court of law and especially so, when the decision of the Tribunal has the binding force of a decree passed by a court of law<sup>3</sup>. The D.V.C. ought to have followed it in matters of compensation for compulsory acquisition of lands and tenements without giving the matters to ordinary court of law<sup>4</sup>. It is nevertheless arguable that in cases of grave doubts on matters of law, a reference should be made to the High Courts and the Supreme Court for decision. The excellence of provision for administrative tribunal lies in quickness of decisions to ensure efficiency of operation but the wisdom of a provision is all the more demonstrated when the highest Tribunal of the land is to sit on judgment on specific point of law arising out of decision of the Tribunal, as, after all the public corporations are subject to the general law of the land. The D.V.C. is a singular instance in

<sup>1</sup> Sec. 11, 17 of L.I.C. Act ; Sec. 25 of Air Corporations Act.

<sup>2</sup> Sec. 41 of L.I.C. Act.

<sup>3</sup> Sec. 42 of L.I.C. Act.

<sup>4</sup> D.V.C. in its Annual Report for 1954-55 states that 88 cases were referred to the District Judge under Sections 18 and 30 of the Land Acquisition Act, of which only 6 cases were disposed of, p. 22.

which there is an express provision<sup>1</sup> of arbitration by a person to be appointed by the Chief Justice of India on reference of points of disputes between the Corporation and any of the three Participating Governments. The necessity of this provision has undoubtedly arisen because of the peculiarity of the undertaking in which the Corporation, an autonomous body, has to co-ordinate the rights of the three Participating Governments, and in discharging his delicate function the possibility of disputes cannot be ruled out. Why is this arbitration and not an ordinary process of a legal action? The reasons obviously are two, as here, (1) the Corporation primarily stands as a co-ordinator of interests of the Participating Governments relating to the project and an amicable settlement under the authority of a competent person of legal acumen is desirable, and (2) the arrangement does away with the lengthy, dilatory and formal procedure prescribed for a general litigation. Article 131 of the Constitution of India provides for the original jurisdiction of the Supreme Court of India in respect of a dispute arising between the Government of India and the States, and in the case of the D.V.C., so far as the disputes between the Corporation and any of the Participating Governments are concerned, the provision of arbitration is perfectly correct.

### Mopping up of surpluses

In a socialist country public corporations have intimate but distinct and independent relationship with Government, as through these institutions much of the policy and objectives of the Government are fulfilled. Public undertakings are considered to be a source of income of the State in two ways, viz, (i) by taxation of the profits and (ii) by the surplus earning itself. Taxation is resorted to as a yardstick of efficiency. In Canada, in course of Parliamentary debate it was observed that 'Tax' was justified "to make the financial statements of these crown-companies more compatible with private industry, and make it easier to assess the relative efficiency of their operations."<sup>2</sup> In

<sup>1</sup> Sec. 49 of the D.V.C. Act.

<sup>2</sup> Debates 1952 p. 2093. as quoted by Lloyd D. Musolf : *Canadian Public Enterprise : A Character Study in American Political Science Review*, Vol. L No. 2, June, 1956, p. 419.

India also, tax on public corporation has been adopted on the same ground, though not without opposition.<sup>1</sup>

Tax on profit of the Government industry is, however, distinct from indirect tax or tax payment conditional for running the industry. As a measure of efficiency, taxation is advocated for two reasons. Firstly, to bestow an even treatment upon the private and the public sectors alike in the same field of operation in order to measure comparative efficiency, and secondly, to avoid accusations of granting concessions and subsidy in the shape of tax remissions in carrying out operations which are in direct competition with the private sector. But when the conditions in a public enterprise are so different from those in a private enterprise in many respects, such as, source of finance, risk-bearing administration, serving different kinds of consumers and contrasting motives and objectives, the justifiability of taxation as a fiscal measure is hard to establish. After all, when the ownership of the State is total, taxation loses its objectives and significance, as the Government has the power freely to deal with the surplus either for expansion of the institution itself or diverting them to any other public undertakings or utilising them in any other manner in the public interest. If the Government can deal with the surplus of the corporation freely, what is the necessity of taxing it ? On the model of the Indian Railways, a public corporation may, therefore, be asked to transfer a reasonable percentage of its surpluses to Government General Revenues and to plough back the balance into the undertaking itself. The percentage may be fixed reasonably, say, at 50% of surplus for transfer to Revenues ; variable rates of percentages may be advisable within a reasonable limit. This method serves both purposes of revenue yield to the Government and building up an independent finance of a public undertaking.

### Public Relations

Maintaining of good public relations is an important need in a public enterprise. In order to create a good impression about an undertaking the management should entertain public enquiries, and assess public opinion in formulating the policy and

<sup>1</sup> *Constituent Assembly of India (Legislative) Debates on the the D.V.C. Bill*, Dt. 18.2.48, p. 883.

mode of its execution. The Public Relations Officer must be a man of pleasing manners and must have patience to answer public enquiries in unambiguous terms. General dissatisfaction due to bad public relations in Government departments should never be allowed to spread contagiously to the public undertakings. Happily, public relations departments have been set up in all organisations in India, but dissatisfaction, however, prevails about the manner of treatment meted out to the public. There is a great need for improvement in outlook and manner of approach to the matter. The Board should keep itself in constant touch with this department to assess the position and to amend the policy and action, if necessary. Generally, this department is centralised at the headquarters. While extensions of the establishment in the areas are never suggested, it is highly necessary that there should be largest decentralisation of the matter so that the area manager or official concerned may deal with and dispose of the public enquiries in the perspective of the local problems and need not look to the headquarters for "direction". Public enquiries should be entertained with scrupulous regard but neither insensible public demand nor any political influence should prevail upon the administration. The philosophy of public relations should not 'however' be extended too far to lose the administration's own rights and blurring of responsible management. A harmonious effort of the Board and the public at large can certainly ensure successful working of the undertaking.

### **Avoidance of doctrinaire socialism**

The crux of nationalisation, however, lies in determining the field of operation by the public sector. How far the arms of nationalisation should extend is a problem of staggering dimension. The accepted doctrine of India in this matter is to leave the private sector as such so far as it is not inimical to the larger economic interests of the country, and not to extend nationalisation to the units which have already demonstrated their efficiency and are not antagonistic to the State policy. But piecemeal nationalisation of an industry is dangerous as it would tend to provide scope for uneconomic units to become parasites on the efficient units. Hence the policy should be for a complete

nationalisation of a particular field of economic activity and make reshuffle of units in one way or the other so that no uneconomic unit gets opportunity to feed itself on others and prove to be a gag on the industry itself. It is also wrong to leave some institutions of the same field in private hands as it tends to make frictions more frequent in policy matters and their practical operation. A well thought out plan is, therefore, necessary for extension of the public sector in achieving national objectives and "the area of its occupation" should be determined on solid consideration of practical possibilities. In India, for example, Steel industry should be nationalised as a whole, so also coal mines for obvious reasons to feed the basic nationalised industry. The policy of nationalisation should, however, be cautious and avoid rash extension. But once nationalisation is accepted for any industry or economic activity there should be no room for piecemeal application of nationalisation policy and nationalisation must be complete in order to bring the industry as a whole under a unified policy and control of common management. India has many problems to solve in her economic domain, and an orgy of rash and hasty nationalisation of different kinds of economic activities can perhaps ensue an economic deadlock as the problems involved in nationalisation are far too many for an easy disposal. Nevertheless, time is already ripe for the country to extend the arms of public ownership to some particular activities both in industrial and agricultural sectors. Heavy chemicals, pharmaceutical drugs, newsprint, general insurance and commercial banking might be considered for bringing into public ownership in gradual steps. Indeed, India requires a rapid progress and public sector has a definite role to play in the national development. But a word of caution is necessary against hasty, ill-conceived and unreasonable extension of public ownership. Certainly, public sector should not bite off more than it can chew, and every consideration should be given for introducing modifications and reorientation of operations and aiding the private sector before embarking on nationalisation of the existing institutions in private hands. In the case of a new field of activity the State should also give a second thought before bringing it into the orbit of the public sector to determine whether this could also be operated by the private sector efficiently and in an orderly

manner. Private sector should never be taken as an adversary of public sector but a partner in economic development and national uplift. But the matter of even regional disbursements of enterprises between the public and the private sectors should attract larger attention of the planners in future for a balanced development of national economy.

### **Mixed Economy and Mixed Enterprise**

A distinction should, however, be made between a mixed economy and a mixed enterprise. India at this stage has necessarily to put up with a mixed economy in which both public and private sectors are to play their respective roles in the developmental programmes of the country. But the conception of mixed enterprise in which there is financial and managerial partnership between the State and the private interests has, of late, been gaining momentum. In Britain also the Labour Party is in favour of this innovation in inviting private capital in big projects to supplement Government resources. On similar grounds the Mazumdar Committee also recommended for the integration of State finance and private capital to carry on the State undertakings in India. But a mixed enterprise gives rise to problems in many ways right from the beginning of the structural organisation and administration to the distribution of awards. Bickerings between the two interests due to their contrasting motives may sometimes cause an undesirable deadlock. It is, therefore, suggested that in the fitness of things mixed enterprise should be avoided at least in cases of key projects, and the private sector should largely be given scope to participate in the national economy by developing the fields earmarked for it in the Industrial Policy Statements and also by functioning in the fields ancillary to the public economy, for example, marketing and distribution, and helping to shape a public undertaking to suit the consumers' preference. In the initial stages, private sector may be called upon to help establish a public undertaking with engineering skill and supply of talents on loan for initial administration. But all this is to be invited on an agreed contractual payment without allowing direct participation either in the profits or future management. By this process a public undertaking will have a smooth sailing without

being guided by the attitude of self-interest and profit motives of the private sector. But collaboration between the State and the private investors may, of course, prove successful if the private interest has respect for the objectives of a state project and the enterprise is mutually administered to achieve that end. Really, for the success of a mixed enterprise, the private sector will need shedding much of its anachronistic and self-centred views in the context of the national interests.

While it is too early to assess the performance of the public sector in India, it can, however, be unmistakably asserted that criticism of sluggishness or inertia cannot justifiably be hurled against it. Of course, there is much to be expected in many respects before an unstinted praise could be showered on it but the present achievements, however humble they may be, do not provide scope for using the terms of disparagement. Indeed, public opinion will mould it in the expected shape in times ahead.<sup>1</sup>

Nevertheless, let the observer of the barren, nude and inaccessible regions of the past peep into the present to find the areas brisking, feverish and humming with life and revolution ; let him see the skysailing chimneys of the giant steel plants emitting multi-coloured smokes ; let him climb the crest of the D.V.C. to observe the reservoir to its blue green depths "cool, un-failing and obedient" ; let him look at the wreaths of the flashing lights marking the contour of engineering achievements around the awful super-structure of dams in the river valleys keeping the roaring ceaseless streams in bondage, for being harnessed to serve mankind ; and let him feel all the country over the vivacious pulsation of the economic activities, refined, orient and freshly conceived, to attain perfection of democratic socialism all heralding and visualising a new era, a new age for new India, where the primacy of public corporation would assert itself.

<sup>1</sup> Robson W.A. Op. cit., p. 452.



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### *About the Book :*

In a planned economy of India, a larger responsibility has been cast upon the Public Sector to forge the country to its socialist ideals. Public enterprise has, therefore, occupied its place in various fields of economy. Amongst the different forms of Public enterprise, the institution of public corporation has been widely adopted in countries both far and near. But there are obvious vacillations in the economic domain in evolving a suitable pattern to have the best of both worlds. In India also experimentation is going on round the issue.

This is a timely study and the author, while comprehensively dealing with the subject, has assiduously brought to the fore the various knotty problems and issues involved therein. According to his assessment, the present administration of public corporations in India not only calls for driving force and imagination but a robust outlook on all fronts to ensure corporate freedom as well as to enforce public control and accountability. Executive excesses and political pressures which now tend to overshadow the Governing Board need to be kept in checks and balances in order to have the efficient conduct of a public enterprise.

The author has reviewed every aspect of a public corporation in India on a comparative level of foreign experience and, with the aid of a wealth of material, has presented a fair estimate about its working in a state of an underdeveloped economy without either unduly eulogising the achievements or disparaging the failures. Paradoxes and problems lurking therein which warrant a shrewd investigation have been emphasised on a well-balanced discussion with the author's independent views thereon.

The work, it is believed, will not only benefit the students of the subject but also act to open up a new vista to the administrators towards evolving a suitable pattern in the public sector economy in the concept of a democratic socialism.





